# TWO RIVERS COMMUNITY SCHOOL

# BASIC FINANCIAL STATEMENTS

June 30, 2018

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JOHN CUTLER & ASSOCIATES

Board of Directors
Two Rivers Community School
Glenwood Springs, Colorado

# INDEPENDENT AUDITORS' REPORT

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Two Rivers Community School (the "School"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## 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 and each major fund of Two Rivers Community School as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

600 17TH STREET SUITE 2800 SOUTH • DENVER, COLORADO 80202 •TEL 303.634.2259 •FAX 303.496.4631

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 40 - 44 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 18, 2018

**Two Rivers Community School**
**Management's Discussion and Analysis**
**For the year ending June 30th 2018**

As management of Two Rivers Community School (TRCS), we offer readers this narrative as an overview and analysis of the basic financial statements and financial activities of TRCS for the fiscal year ending on June 30th, 2018.

*Overview of Financial Statements*
The discussion and analysis are intended to serve as an introduction to TRCS's basic financial statements. TRCS's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

*Government-Wide Financial Statements*
The government-wide financial statements are designed to provide readers with a broad overview of TRCS in a manner similar to a private sector business. The statement of net position presents information on all of TRCS's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Two Rivers Community School is improving or deteriorating. The statement of activities presents information showing how the School's net position changed during the underlying event given rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only results in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits). The government-wide statement of activities distinguishes functions/programs of Two Rivers Community School supported primarily by Per Pupil Operating Revenue or other revenues passed through from the Charter School Institute. The governmental activities of TRCS include instruction and supporting services. The government wide financial statement, including building corporation, can be found on pages 1-5 of this report.

*Financial Highlights*
The year ending June 30th 2018 was the fifth year of operation for TRCS, and the fourth year of operations using per pupil as the main sources of revenue. As of June 30th, 2018 net position decreased from ($1,126,892) in SY17 to ($3,011,205). The net position of the governmental activities is in a deficit position including its Net Pension Liability per the requirements of GASB Statements No. 68 and 75.

At the close of the fiscal year, TRCS governmental funds reported a combined ending fund balance of $868,110 in the Building Corporation (decrease of $4,543,890 due to expenses related to building construction) and $1,069,810 in the general school fund (increase of $217,929 due to the school's ability to budget and operate conservatively). That is a decrease of $4,325,963 from the prior year.

The difference is due primarily to funds from the Building Corporation utilized to pay for the renovations and construction of the present facility. The total fund balance in the general school fund represents 37% of the actual total revenues for SY17-18. This unassigned fund balance is aligned with the school's goals to keep cash on hand for tis financial obligations to the bondholders.

*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. TRCS, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of TRCS are governmental funds.

*Governmental Funds*
Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the school's near- term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the school's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues and expenses as well as changes in fund balance, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. TRCS maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and change in fund balance for the general fund, which is the one governmental fund.

TRCS adopts an annual appropriated budget for the General Fund. Budgetary comparison statements have been provided for the fund to demonstrate compliance with the budget. The basic governmental fund financial statements can be found on pages 3-5 of this report.

*Notes to the Financial Statements*
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*Other Information*
A budgetary comparison schedule for the General Fund can be found on page 40 of this report. This report shows the budget that was adopted in June of 2017 compared to budget adopted in January 2018 and their variance. The actual column matches the school's final profit and loss statement ending on June 30th, 2018 on an accrual basis.

*Government-Wide Financial Analysis*
As noted earlier, net position may serve over time as a useful indicator of the school's financial position. In the case of TRCS, liabilities exceeded assets due to the pension liability-reporting requirement under GASB-68 and the long-term liability with the recently acquired construction bonds.

Fund Balance- Ending
The school has been able to augment its fund balance every year and has not engaged in a budget deficit thus far. Increasing from a fund balance of $477,989 in FY16, $851,881 in FY17, and ending with a fund balance of $1,069,810 in FY18. We feel confident that our budgeting practices and financial policies and procedures have enabled us to establish a fund balance trend.

**Two Rivers Community School's Net Position**

| | Governmental Activities | |
|---|---|---|
| | June 30, 2017 | June 30, 2018 |
| **ASSETS** | | |
| Cash in the bank | $ 986,158 | $1,122,542 |
| Accounts Receivable | 12,586 | 967,018 |
| Restricted Cash and Investments | 5,691,622 | 45,730 |
| Capital Assets, Non Depreciated | 3,135,118 | 1,730,319 |
| Capital Assets, Depreciated | 1,891,163 | 7,675,851 |
| Rent Deposit | | |
| **Total Assets** | **11,716,647** | **11,541,460** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Related to Pensions | 2,983,216 | 2,984,542 |
| Related to OPEB | - | 26,737 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | **2,983,216** | **3,011,279** |
| **LIABILITIES** | | |
| Accounts Payable | 293,128 | 15,554 |
| Line of Credit | 20,981 | - |
| Accrued Interest | | 40,667 |
| Unearned Revenue | 3,887 | 27,036 |
| Accrued Salaries & Benefits | 108,487 | 154,780 |
| Non-current liabilities due in one year | | 150,000 |
| Non-current liabilities due in More than one year | 10,020,000 | 9,870,000 |
| Noncurrent Liability – Net Pension Liability | 5,356,072 | 6,865,978 |
| Net OPEB Liability | - | 156,552 |
| **Total Liabilities** | **15,802,555** | **17,280,567** |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Related to Pensions | 24,200 | 280,758 |
| Related to OPEB | | 2,619 |
| **TOTAL DEFERRED IFLOWS OF RESOURCES** | **24,200** | **283,377** |
| **NET POSITION** | | |
| Net Investment in Capital Assets | (8,128,837) | (613,830) |
| Restricted for Emergencies | 59,100 | 75,500 |
| Unrestricted | 6,942,845 | (2,472,875) |
| **Total Net Position** | **$ (1,126,892)** | **$ (3,011,205)** |

The largest portion of assets for Two Rivers Community School are capital non-depreciated and depreciated assets. The second largest, not including building related assets, is in cash in the bank at 9.73% of total assets, an increase of 1.33% from the previous year.

**Two Rivers Community School's Change in Net Position**
**Governmental Activities**

| | June 30, 2017 | June 30, 2018 |
|---|---|---|
| Program Revenue: | | |
| Charges for Services | 162,805 | 580,566 |
| Operating Grants and Contributions | 138,832 | 214,069 |
| Capital Grants and Contributions | 60,835 | 74,657 |
| Total Program Revenue | 362,472 | 869,292 |
| | | |
| General Revenue: | | |
| Per Pupil Revenue | 1,646,418 | 2,171,797 |
| Miscellaneous | 218 | 205 |
| Interest | 71,598 | 24,991 |
| Total General Revenue | 1,718,234 | 2,196,993 |
| | | |
| **Total Revenue** | 2,080,706 | 3,055,285 |
| | | |
| Expenses: | | |
| Current: | | |
| Instruction | 1,470,831 | 2,709,508 |
| Supporting Services | 1,324,027 | 1,551,059 |
| Interests and other fiscal charges | 26,786 | 561,707 |
| | | |
| **Total Expenses** | 2,821,644 | 4,822,274 |
| | | |
| **Increase/(Decrease) in Net Position** | (740,938) | (1,755,989) |
| | | |
| **Net Position, Beginning - RESTATED** | (385,954) | (1,255,216) |
| | | |
| **Net Position, Ending** | $ (1,126,892) | $(3,011,205) |

The largest portion of Two Rivers Community School's revenues came from per pupil revenue due to the increase in student enrollment.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds.** The focus of Two Rivers Community School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Two Rivers Community School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year 2018, the School's General Fund reported an ending fund balance of $1,069,810, an increase from $851,881 from the previous year. This increase is again greatly significant since the school was able to retain a little over 39% of its total audited actual revenues with previous fund balances combined. Without adding previous years' fund balances, this year we retained 7.96% of the total revenues, a change of -10.6% mainly due to the school starting to comply with its obligations to repay the bonds.

## General Fund Budgetary Highlights

The School approves a final budget in June based on enrollment projections for the school year. Before January, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between the original budget and actual activities. On the revenue side, the school recognized $7,536 more than expected revenues from the revised budget, and $725,943 less in expenditures, including the expected reserve put aside in our budget to cover for building incidents. Said reserve includes a $500,000 building reserve fund and $71,471 for TABOR requirements. As we analyze these numbers, the difference between expected and actual expenditures came out to $154,472. This was the result of the school's ability to raise funds through local fundraising, save cash by carefully spending and hiring only the necessary staff, and by keeping close accounting on all school expenses and revenues.

One budget amendment was made during the 2017-18 school year on January of 2018.

## Capital Assets & Long-Term Debt

Two Rivers Community School had depreciated capital assets in property acquisition and improvements, and machinery and equipment (three school buses) in the amount of $7,675,851. When the school year ended on June 30$^{th}$, 2018, Two Rivers Community School had recently completed a large addition and remodel to the current facility. See Note 4 for more information.

In October of 2016, the school acquired $10,020,000.00 in bonds from the Public Finance Authority. Proceeds from these bonds were used to payoff the Alpine Bank loan, and purchase and remodel the building.

The school submitted the first mortgage payments on behalf of the Two Rivers Building Corporation in December 2017. The school negotiated an interest rate of 5.2% but aims to refinance the bonds before the call date of October 2019 hoping to negotiate a lower interest rate. See Note 6 for more information.

Debt-Service Requirements:
Year Ended June 30th 2017

| | Principal | Interest | Total |
|---|---|---|---|
| 2018 | | $ 521,040 | $ 521,040 |
| 2019 | $ 150,000 | 517,140 | 667,140 |
| 2020 | 160,000 | 509,080 | 669,080 |
| 2021 | 170,000 | 500,000 | 670,500 |
| 2022 | 180,000 | 491,400 | 671,400 |
| 2023-2027 | 1,040,000 | 2,304,380 | 3,344,380 |
| 2028-2032 | 1,355,000 | 1,994,330 | 3,349,330 |
| 2033-2037 | 1,750,000 | 1,592,760 | 3,342,760 |
| 2038-2042 | 2,275,000 | 1,072,370 | 3,347,370 |
| 2043-2047 | 2,940,000 | 398,060 | 3,338,060 |
| **Totals:** | **$ 10,020,000** | **$ 9,901,060** | **$ 19,921,060** |

The school plans to increase its enrollment to 380 by the SY2019-2020. With a refinanced loan, increase in per-pupil revenue, and the increase in enrollment, the school will be able to keep the total facilities debt ratio at 20% or lower and plans to retain at least 90 days of cash on hand at all times.

**Economic Factors and Next Year's Budget**

The primary factor driving the budget for Two Rivers Community School is student enrollment. Enrollment for the 2018-2019 school year was 351 on count day and an increase in Mill-Levy funds was added to the per-pupil revenue (PPR) calculation. There is also an initiative in the November ballot that could potentially increase PPR for all public schools in Colorado. If passed, this initiative will make a huge positive impact in the finances of the school. TRCS plans to use all non-restrictive funds to keep as cash on hand to meet the requirements of the bonds and to provide for unexpected loss of revenue.

**Requests for Information**

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

Two Rivers Community School
Head of School
P.O. Box 188
Glenwood Springs, CO. 81602

# BASIC FINANCIAL STATEMENTS

TWO RIVERS COMMUNITY SCHOOL

STATEMENT OF NET POSITION
As of June 30, 2018

| | Governmental Activities | |
|---|---|---|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and Investments | $ 1,122,542 | $ 986,158 |
| Restricted Cash and Investments | 967,018 | 5,691,622 |
| Accounts Receivable | 45,730 | 12,586 |
| Capit Assets, Not Depreciated | 1,730,319 | 3,135,118 |
| Capital Assets, Depreciated, Net of Accumulated Depreciation | 7,675,851 | 1,891,163 |
| TOTAL ASSETS | 11,541,460 | 11,716,647 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Related to Pensions | 2,984,542 | 2,983,216 |
| Related to OPEB | 26,737 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 3,011,279 | 2,983,216 |
| LIABILITIES | | |
| Accounts Payable | 15,554 | 293,128 |
| Accrued Salaries and Benefits | 154,780 | 108,487 |
| Line of Credit | - | 20,981 |
| Accrued Interest | 40,667 | - |
| Unearned Revenue | 27,036 | 3,887 |
| Noncurrent Liabilities | | |
| Due in One Year | 150,000 | - |
| Due in More than One Year | 9,870,000 | 10,020,000 |
| Net Pension Liability | 6,865,978 | 5,356,072 |
| Net OPEB Liability | 156,552 | - |
| TOTAL LIABILITIES | 17,280,567 | 15,802,555 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Related to Pensions | 280,758 | 24,200 |
| Related to OPEB | 2,619 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 283,377 | 24,200 |
| NET POSITION | | |
| Net Investment in Capital Assets | (613,830) | (8,128,837) |
| Restricted for Emergencies | 75,500 | 59,100 |
| Unrestricted | (2,472,875) | 6,942,845 |
| TOTAL NET POSITION | $ (3,011,205) | $ (1,126,892) |

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

TWO RIVERS COMMUNITY SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

| | | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION | |
|---|---|---|---|---|---|---|
| | | | | | Governmental Activities | |
| FUNCTIONS/PROGRAMS | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | 2018 | 2017 |
| PRIMARY GOVERNMENT | | | | | | |
| **Governmental Activities** | | | | | | |
| Instructional | $ 2,709,508 | $ - | $ 154,711 | $ - | $ (2,554,797) | $ (1,373,254) |
| Supporting Services | 1,551,059 | 580,566 | 59,358 | 74,657 | (836,478) | (1,059,132) |
| Interest and Other Fiscal Charges | 561,707 | - | - | - | (561,707) | (26,786) |
| Total Governmental Activities | $ 4,822,274 | $ 580,566 | $ 214,069 | $ 74,657 | (3,952,982) | (2,459,172) |
| | | GENERAL REVENUES | | | | |
| | | Per Pupil Revenue | | | 2,171,797 | 1,646,418 |
| | | Interest | | | 24,991 | 71,598 |
| | | Miscellaneous | | | 205 | 218 |
| | | TOTAL GENERAL REVENUES | | | 2,196,993 | 1,718,234 |
| | | CHANGE IN NET POSITION | | | (1,755,989) | (740,938) |
| | | NET POSITION, Beginning, as restated | | | (1,255,216) | (385,954) |
| | | NET POSITION, Ending | | | $ (3,011,205) | $ (1,126,892) |

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

TWO RIVERS COMMUNITY SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

| | GENERAL FUND | BUILDING CORPORATION | TOTAL GOVERNMENTAL FUNDS 2018 | TOTAL GOVERNMENTAL FUNDS 2017 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and Investments | $ 1,122,542 | $ - | $ 1,122,542 | $ 986,158 |
| Restricted Cash and Investments | - | 967,018 | 967,018 | 5,691,622 |
| Accounts Receivable | 45,730 | - | 45,730 | 12,586 |
| Due from Other Funds | 98,908 | - | 98,908 | - |
| TOTAL ASSETS | $ 1,267,180 | $ 967,018 | $ 2,234,198 | $ 6,690,366 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | $ 15,554 | $ - | $ 15,554 | $ 293,128 |
| Accrued Salaries | 154,780 | - | 154,780 | 108,487 |
| Due to Other Funds | - | 98,908 | 98,908 | - |
| Line of Credit | - | - | - | 20,981 |
| Unearned Revenues | 27,036 | - | 27,036 | 3,887 |
| TOTAL LIABILITIES | 197,370 | 98,908 | 296,278 | 426,483 |
| FUND BALANCES | | | | |
| Restricted for Emergencies | 75,500 | - | 75,500 | 59,100 |
| Restricted for Capital Projects | - | 868,110 | 868,110 | 5,412,002 |
| Unassigned | 994,310 | - | 994,310 | 792,781 |
| TOTAL FUND BALANCES | 1,069,810 | 868,110 | 1,937,920 | 6,263,883 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 1,267,180 | $ 967,018 | | |

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

| | 2018 | 2017 |
|---|---|---|
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | 9,406,170 | 5,026,281 |
| Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is bonds payable ($10,020,000) and accrued interest payable ($40,667). | (10,060,667) | (10,020,000) |
| Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of ($6,865,978), net OPEB liability ($156,552) deferred outflows related to pensions and OPEB $3,011,279 and deferred inflows related to pensions and OPEB ($283,377). | (4,294,628) | (2,397,056) |
| Net Position of governmental activities | $ (3,011,205) | $ (1,126,892) |

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

TWO RIVERS COMMUNITY SCHOOL

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

| | GENERAL FUND | BUILDING CORPORATION | TOTAL GOVERNMENTAL FUNDS 2018 | TOTAL GOVERNMENTAL FUNDS 2017 |
|---|---|---|---|---|
| REVENUES | | | | |
| Local Sources | $ 2,508,050 | $ 328,867 | $ 2,836,917 | $ 1,922,294 |
| State Sources | 191,636 | - | 191,636 | 119,589 |
| Federal Sources | 37,732 | - | 37,732 | 38,823 |
| TOTAL REVENUES | 2,737,418 | 328,867 | 3,066,285 | 2,080,706 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 1,341,933 | - | 1,341,933 | 678,676 |
| Supporting Services | 1,033,187 | - | 1,033,187 | 878,501 |
| Bond Issuance Costs | - | - | - | 241,754 |
| Capital Outlay | 144,369 | 4,351,719 | 4,496,088 | 4,331,791 |
| Debt Service | | | | |
| Principal | - | - | - | 157,304 |
| Interest | - | 521,040 | 521,040 | 26,786 |
| TOTAL EXPENDITURES | 2,519,489 | 4,872,759 | 7,392,248 | 6,314,812 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 217,929 | (4,543,892) | (4,325,963) | (4,234,106) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt Proceeds | - | - | - | 10,020,000 |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | 10,020,000 |
| NET CHANGE IN FUND BALANCES | 217,929 | (4,543,892) | (4,325,963) | 5,785,894 |
| FUND BALANCES, Beginning | 851,881 | 5,412,002 | 6,263,883 | 477,989 |
| FUND BALANCES, Ending | $ 1,069,810 | $ 868,110 | $ 1,937,920 | $ 6,263,883 |

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

TWO RIVERS COMMUNITY SCHOOL

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 | $ (4,325,963) |
| 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 by which capital outlay $4,497,370 exceeds depreciation ($117,481) in the current year. | 4,379,889 |
| Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the increase in accrued interest payable. | (40,667) |
| Deferred charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized. | (1,769,248) |
| Change in net position of governmental activities | $ (1,755,989) |

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

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

Two Rivers Community School (the "School") was formed in 2013 pursuant to the Colorado Charter Schools Act to form and operate a charter school under the guidance of the Charter School Institute. 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 Two Rivers Building Corporation (the "Building Corporation") is considered to be financially accountable to the School. The purpose of the Building Corporation is to provide a mechanism to issue and pay debt on behalf of the School. The Corporation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School's General Fund financial statements as a special revenue fund. Separate financial statements are not available for the Building Corporation.

### Government-Wide and Fund Financial Statements

The School 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.

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.

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

**Government-Wide and Fund Financial Statements** (Continued)

**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.

The School reports the following major governmental funds:

*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.

*Building Corporation Fund* – This fund accounts for the activity of the Two Rivers Building Corporation.

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

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

**Deferred Outflows/Inflows of Resources**

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

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

**Assets, Liabilities and Fund Balance/Net Position**

*Investments* – Investments are recorded at fair value.

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

*Prepaid Expenses* – Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

*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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings and improvement 10 - 45 years, land improvements 15 – 20 years, vehicles and equipment 10 years.

*Unearned Revenue*– Unearned revenues include grants and donations received before the eligibility requirements by the grantor have been met.

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

*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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

*Compensated Absences* – Employees of the School are allowed to earn paid time off (PTO). However, employees are not paid for the accrued compensated absences upon termination of employment. Therefore, no liability has been reported in the financial statements.

*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 are 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 are liquid assets, which have third party limitations on their use.

- Unrestricted Net Position represents assets that do not have any third party limitation on their use. While the School's management may have categorized and segmented portion for various purposes, the School's Board has the unrestricted right to revisit or alter these managerial decisions.

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

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

*Fund Balance Classification* – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the 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 not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The School does not report any balances as nonspendable as of June 30, 2018.

- 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. Fund Balance was also restricted in the Building Corporation fund for capital projects.

- 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 Unassigned fund balances.

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

**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 any coverages 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 July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

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

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

| | |
|---|---|
| Deposits | $ 1,122,542 |
| Investments | 967,018 |
| Total | **$ 2,089,560** |

**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.

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

**Deposits** (Continued)

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 $1,122,542. The bank balances with the financial institutions were $1,231,241. Of these balances $250,000 were covered by federal depository insurance and $981,241 were covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**Investments**

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- 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

The above investments are authorized for all funds and fund types used by Colorado local governments.

Interest Rate and Credit Risk Policies

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, or a formal policy to limit credit risk. However, they follow state statutes regarding investments.

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

**Investments** (Continued)

Local Government Investment Pools

The School had invested $967,018 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to $1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

**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 has no investments that require categorization.

Restricted Cash

Cash in the amount of $967,018 is restricted for future capital outlay in the Internal Service Fund.

**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, Not Depreciated | | | | |
| Land | $ 1,730,319 | $ - | $ - | $ 1,730,319 |
| Construction in progress | 3,135,118 | - | 3,135,118 | - |
| Total Capital Assets, Not Depreciated | 4,865,437 | - | 3,135,118 | 1,730,319 |
| Capital Assets, Depreciated | | | | |
| Buildings | - | 7,533,973 | - | 7,533,973 |
| Buildings Improvements | 275,442 | - | - | 275,442 |
| Equipment | 83,362 | 98,515 | - | 181,877 |
| Total Capital Assets, Depreciated | 358,804 | 7,632,488 | - | 7,991,292 |
| Accumulated Depreciation | | | | |
| Buildings | - | - | - | - |
| Buildings Improvements | 183,628 | 91,814 | - | 275,442 |
| Equipment | 14,332 | 25,667 | - | 39,999 |
| Total Accumulated Depreciation | 197,960 | 117,481 | - | 315,441 |
| Net Capital Assets, Depreciated | 160,844 | 7,515,007 | - | 7,675,851 |
| Net Capital Assets | **$ 5,026,281** | **$ 7,515,007** | **$ 3,135,118** | **$ 9,406,170** |

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

**NOTE 5:** ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were $154,780 in the General Fund.

**NOTE 6:** ***LONG-TERM DEBT***

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2018:

| | Balance June 30, 2017 | Additions | Payments | Balance June 30, 2018 | Due In One Year |
|---|---|---|---|---|---|
| 2016 Bonds Payable | **$ 10,020,000** | **$ -** | **$ -** | **$ 10,020,000** | **$ 150,000** |

**2016 Bonds Payable**

In October 2016, the Public Finance Authority issued $10,020,000 Charter School Revenue Bonds, Series 2016. Proceeds from the bonds were used to pay off the Alpine Bank Mortgage and to purchase and remodel a building. The School is required to make lease payments to the Two Rivers Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 5.20% per year. Interest payments are due semi-annually on June 1 and December 5 and principal payments were due annually on December 1 through 2046.

Future debt service requirements are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 150,000 | $ 517,140 | $ 667,140 |
| 2020 | 160,000 | 509,080 | 669,080 |
| 2021 | 170,000 | 500,500 | 670,500 |
| 2022 | 180,000 | 491,400 | 671,400 |
| 2023 | 185,000 | 481,910 | 666,910 |
| 2024-2028 | 1,100,000 | 2,248,740 | 3,348,740 |
| 2029-2033 | 1,425,000 | 1,922,050 | 3,347,050 |
| 2034-2038 | 1,845,000 | 1,499,290 | 3,344,290 |
| 2039-2043 | 2,395,000 | 950,950 | 3,345,950 |
| 2044-2047 | 2,410,000 | 258,960 | 2,668,960 |
| Total | **$ 10,020,000** | **$ 9,380,020** | **$ 19,400,020** |

## NOTE 7: ***DEFINED BENEFIT PENSION PLAN***

**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.

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**General Information about the Pension Plan** (Continued)

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

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

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

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

**NOTE 7:** ***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 7:** ***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 $222,063 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 $6,865,978 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The 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 0.02123%, which was an increase of 0.00324% from its proportion measured as of December 31, 2016.

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

For the year ended June 30, 2018, the School recognized pension expense of $1,987,204. 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 | $ 126,236 | N/A |
| Changes of assumptions or other inputs | $1,753,139 | $11,125 |
| Net difference between projected and actual earnings on pension plan investments | N/A | $269,633 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | $987,666 | N/A |
| Contributions subsequent to the measurement date | $117,501 | N/A |
| **Total** | **$ 2,984,542** | **$ 280,758** |

$117,501 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 | $ 1,504,122 |
| 2020 | 978,925 |
| 2021 | 203,853 |
| 2022 | (100,617) |

**NOTE 7: *DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

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

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

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

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 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

*Discount rate.* The discount rate used to measure the total pension liability was 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 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

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

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

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

*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 | $ 8,672,898 | $ 6,865,978 | $ 5,393,544 |

*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.

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018**

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

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

- 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.

**NOTE 7:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

At June 30, 2018, the School reported a liability of $6,865,978 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.

| 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% | $ 3,101,989 |

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 $3,205,081 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

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

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

**General Information about the OPEB Plan** (Continued)

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

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

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

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

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

**General Information about the OPEB Plan** (Continued)

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were $11,990 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 $156,552 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 0.01205%, which was an increase of 0.00182% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of $4,110. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 740 | N/A |
| Net difference between projected and actual earnings on OPEB plan investments | N/A | $2,619 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | $19,732 | N/A |
| Contributions subsequent to the measurement date | $6,265 | N/A |
| **Total** | **$ 26,737** | **$ 2,619** |

$6,265 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 | $ 3,368 |
| 2020 | $ 3,368 |
| 2021 | $ 3,368 |
| 2022 | $ 3,368 |
| 2023 | $ 4,022 |
| Thereafter | $ 359 |

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

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

*Actuarial assumptions.* The total OPEB liability in the December 31, 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 8:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

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

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

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

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

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

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

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

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

The following 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.

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

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

- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.

- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.

- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the "No Part A Subsidy" when they retire were revised to more closely reflect actual experience.

- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the "No Part A Subsidy" but have not reached age 65, were revised to more closely reflect actual experience.

- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.

- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

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

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

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%.

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

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

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

| | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|---|---|---|---|
| PERACare Medicare trend rate | 4.00% | 5.00% | 6.00% |
| Initial Medicare Part A trend rate | 2.00% | 3.00% | 4.00% |
| Ultimate Medicare Part A trend rate | 3.25% | 4.25% | 5.25% |
| Net OPEB Liability | **$ 152,245** | **$ 156,552** | **$ 161,740** |

*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.

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

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

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

- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.

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

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

*Sensitivity of the* 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 | $ 176,014 | $ 156,552 | $ 139,941 |

*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 8:** ***COMMITMENTS AND CONTINGENCIES***

**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 $75,500 was recorded as a reservation of fund balance in the General Fund.

**NOTE 9:** ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $128,324 as the School implemented Governmental Accounting Standards Board (GASB) Statement 75.

**NOTE 10:** ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position of $3,011,205 due to the School including its Net Pension Liability per the requirements of GASB Statements No. 68 and 75.

# REQUIRED SUPPLEMENTARY INFORMATION

TWO RIVERS COMMUNITY SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

| | 2018 ORIGINAL BUDGET | 2018 FINAL BUDGET | 2018 ACTUAL | 2018 VARIANCE Positive (Negative) | 2017 ACTUAL |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Local Sources | | | | | |
| Per Pupil Revenue | $ 2,187,857 | $ 2,237,315 | $ 2,171,797 | $ (65,518) | $ 1,646,418 |
| Tuition and Fees | 245,604 | 249,314 | 276,690 | 27,376 | 162,805 |
| Contributions | 59,800 | 59,800 | 59,358 | (442) | 41,255 |
| Other | - | - | 205 | 205 | 218 |
| State Sources | | | | | |
| Grants and Donations | 129,155 | 145,061 | 191,636 | 46,575 | 119,589 |
| Federal Sources | | | | | |
| Grants and Donations | 35,082 | 38,392 | 37,732 | (660) | 38,823 |
| TOTAL REVENUES | 2,657,498 | 2,729,882 | 2,737,418 | 7,536 | 2,009,108 |
| EXPENDITURES | | | | | |
| Salaries | 1,294,713 | 1,303,161 | 1,255,712 | 47,449 | 908,121 |
| Employee Benefits | 404,569 | 402,874 | 348,059 | 54,815 | 255,871 |
| Purchased Services | 593,343 | 670,261 | 606,619 | 63,642 | 270,827 |
| Supplies and Materials | 162,464 | 173,665 | 162,000 | 11,665 | 119,933 |
| Property | 90,000 | 95,000 | 144,369 | (49,369) | 39,559 |
| Other | 4,000 | 29,000 | 2,730 | 26,270 | 2,425 |
| Debt Service | | | | | |
| Principal | - | - | - | - | 36,762 |
| Interest | - | - | - | - | 1,718 |
| TOTAL EXPENDITURES | 2,549,089 | 2,673,961 | 2,519,489 | 154,472 | 1,635,216 |
| NET CHANGE IN FUND BALANCES | 108,409 | 55,921 | 217,929 | 162,008 | 373,892 |
| FUND BALANCES, Beginning | 671,112 | 851,881 | 851,881 | - | 477,989 |
| FUND BALANCE, Ending | $ 779,521 | $ 907,802 | $ 1,069,810 | $ 162,008 | $ 851,881 |

See the accompanying independent auditors' report.

TWO RIVERS COMMUNITY SCHOOL

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

Years Ended December 31,

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| School's proportionate share of the Net Pension Liability | 0.013% | 0.015% | 0.018% | 0.021% |
| School's proportionate share of the Net Pension Liability | $ 1,743,898 | $ 2,340,008 | $ 5,356,072 | $ 6,865,978 |
| School's covered-employee payroll | $ 262,921 | $ 793,194 | $ 807,386 | $ 977,966 |
| School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll | 663.3% | 295.0% | 663.4% | 702.1% |
| Plan fiduciary net position as a percentage of the total pension liability | 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.

TWO RIVERS COMMUNITY SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISVISION TRUST FUND

Years Ended June 30,

| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Statutorily required contributions | $ 105,208 | $ 142,114 | $ 153,411 | $ 222,063 |
| Contributions in relation to the Statutorily required contributions | 105,208 | 142,114 | 153,411 | 222,063 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| School's covered-employee payroll | $ 551,065 | $ 757,284 | $ 845,207 | $ 1,175,477 |
| Contributions as a percentage of covered-employee payroll | 19.09% | 18.77% | 18.15% | 18.89% |

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

See the accompanying independent auditors' report.

TWO RIVERS COMMUNITY SCHOOL

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

Years Ended December 31,

| | 2016 | 2017 |
|---|---|---|
| School's proportionate share of the Net OPEB Liability | 0.010% | 0.012% |
| School's proportionate share of the Net OPEB Liability | $ 132,574 | $ 156,552 |
| School's covered-employee payroll | $ 807,386 | $ 977,966 |
| 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.

TWO RIVERS COMMUNITY SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

| | 2017 | 2018 |
|---|---|---|
| Statutorily required contributions | $ 8,621 | $ 11,990 |
| Contributions in relation to the Statutorily required contributions | 8,621 | 11,990 |
| Contribution deficiency (excess) | $ - | $ - |
| School's covered-employee payroll | $ 845,207 | $ 1,175,477 |
| 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.