

**WESTGATE COMMUNITY SCHOOL**

**FINANCIAL STATEMENTS**

**June 30, 2018**

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Office of the State Auditor

November 27, 2018



**Logan and Associates, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Westgate Community School  
Thornton, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Westgate Community School (the "School"), a component unit of Adams County School District No. 12, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Westgate Community School.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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 reasonable 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, each major fund and the aggregate remaining fund information of the Westgate Community School as of June 30, 2018, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the School adopted the standard of the Governmental Accounting Standards Board (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion on pages i - v, and budgetary comparison schedule, schedule of proportionate share of the net pension liability, the schedule of school pension contributions, schedule of proportionate share of the net OPEB liability and the schedule of school OPEB contributions on pages 40 - 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

*Logan and Associates, LLC*

Aurora, Colorado  
September 7, 2018

# Westgate Community School

## Management's Discussion and Analysis

Fiscal Year Ending June 30, 2018

As management of Westgate Community School (Westgate), we offer readers of Westgate's basic financial statements this narrative and analysis of the financial activities of Westgate for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided by auditors in the accompanying financial statements.

### **Financial Highlights**

The year ending June 30, 2018 is the ninth year of operations for Westgate. The general fund balance increased from \$821,515 to \$1,417,957.

The operations of Westgate are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was approximately \$3,637,536.

### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to Westgate's basic financial statements. The basic 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***

Government-wide financial statements are prepared to provide interested parties with a broad overview of the school's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and remaining assessment of financial value (net position). With historical data, increases and decreases in net position may serve as a useful indicator of whether the financial position of the school is improving or deteriorating.

The statement of activities, or income statement, presents information showing how the school's net position changed during the year. Changes to net position are reported at the primary occurrence regardless of the timing of cash flows. Thus, revenues and expenses are reported in the statement that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of fiscal year end).

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Westgate adopts an annual budget for the general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with the budget as part of the required supplementary information included in the audited financial statements. The Capital Improvements

fund is a governmental fund and is used to hold funds for capital expenditures related to Adams 12 Five Star School District 2016 Bond issue.

The Westgate Building Corporation is considered a component unit of Westgate Community School and is reported as an internal service fund. Information is presented in the statement of net position, statement of revenues, expenses and changes in net position, and the statement of cash flows.

**Notes to Financial Statements**

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

**Government-Wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of Westgate’s financial position. For the year ending June 30, 2018, Westgate’s net position was \$(4,703,854). Approximately \$138,000 of these funds are restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment, and \$50,000 of these funds are restricted for reserves required by the Adams 12 Five Star School District for a Special Education Lawsuit Reserve. Accordingly, these funds are not available to satisfy general operating expenses of Westgate.

<b>Statement of Net Position</b>		<b>2018</b>	<b>2017 As restated</b>
<b>Assets</b>			
	Cash	\$1,467,065	\$870,673
	Restricted Cash and Investments	2,349,401	2,584,879
	Accounts Receivable	18,906	70,874
	Prepaid Expenditures	51,790	1,296
	Capital Assets, Not Depreciated	2,834,000	2,834,000
	Capital Assets, Depreciated, Net	<u>5,781,710</u>	<u>5,881,294</u>
<b>Total Assets</b>		<u>12,502,872</u>	<u>12,243,016</u>
<b>Deferred Outflows of Resources</b>			
	Deferred outflows of resources related to Pensions	3,598,417	4,187,149
	Deferred outflows of Resources Related to OPEB	<u>14,311</u>	<u>7,825</u>
<b>Liabilities</b>			
	Accounts Payable	7,454	10,300
	Accrued Liabilities		
	Accrued Salaries and Benefits	112,350	111,028
	Unearned Revenues		
	Accrued Interest	31,775	32,556
<b>Non-Current Liabilities</b>			
	Due In One Year	255,017	242,429
	Due In More than One Year	8,502,785	8,755,622
	Net Pension Liability	10,884,308	9,772,601
	Net OPEB Liability	<u>248,552</u>	<u>241,893</u>
<b>Total Liabilities</b>		<u>20,042,241</u>	<u>18,924,536</u>
<b>Deferred Inflows of Resources</b>			
	Deferred inflows of resources related to Pensions	773,055	332,814
	Deferred inflows of resources related to OPEB	<u>4,158</u>	<u>0</u>
<b>Net Position</b>			
	Invested In Capital Assets, Net	(142,092)	(282,757)
	Restricted For Emergencies	138,000	138,000
	Restricted By the District	50,000	50,000
	Debt Service	2,317,626	2,552,323
	Capital Improvements	1,560,064	1,794,176
	Unrestricted	<u>(8,627,452)</u>	<u>(7,078,927)</u>
<b>Total Net Position</b>		<u>(4,703,854)</u>	<u>(3,061,253)</u>

<i>Changes In Net Position</i>		<i>2018</i>	<i>2017</i>
<b>Revenues</b>			
	Per Pupil Operating Revenue	3,637,536	3,460,216
	Charges For Services	391,823	344,131
	Other Revenue	68,456	97,336
	Grants and Donations	107,579	114,523
	Contributions not restricted to Specific Programs	2,000	523,999
	Contribution from Adams 12	0	2,184,371
	Investment Income	11,717	5,150
	Capital Grants	<u>128,171</u>	<u>132,193</u>
<b>Total Revenue</b>		<u>4,347,282</u>	<u>6,861,919</u>
<b>Expenses</b>			
	Instructional	3,468,509	3,346,102
	Support	2,128,445	1,922,480
	Interest on Long Term Debt	<u>392,929</u>	<u>401,886</u>
<b>Total Expenses</b>		<u>5,989,883</u>	<u>5,670,468</u>
<b>Increase (Decrease) In Net Position</b>		(1,642,601)	1,191,451
<b>Net Position, Beginning of Year</b>	As restated for 2017	(3,061,253)	(4,252,704)
<b>Net Position, End of Year</b>		<u>(4,703,854)</u>	<u>(3,061,253)</u>

## **Fund Financial Analysis**

### **Governmental Funds**

#### ***General Fund***

The focus of Westgate 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 Westgate's financing requirements. In particular, unreserved fund balance may serve as a useful measure of Westgate's net resources available for spending at the end of the fiscal year.

*Income-* The total income for the period ending June 30, 2018 was \$4,335,565. Per pupil funding from the State accounts for the majority of this income. Other sources of funds include charges for instructional fees, lunches, as well as tuition for the full day kindergarten program. Westgate also received \$128,171 in Capital Construction Grant funds from the State. The majority of the remaining revenue is from categorical funding and fundraising activities.

*Expenditures:* Total expenditures for the period ending June 30, 2018 were \$3,739,123. Included in these expenditures are \$607,420 of lease payments to the Building Corporation for building occupancy and \$27,321 of payments for the LED lights. Salaries and benefits for the year totaled \$2,215,237, or 59% of our expenditures for the year.

*Net Income:* The net income in the General Fund for the period ending June 30, 2018 was \$596,442. As of the end of the current fiscal year, Westgate's General Fund reported an ending fund balance of \$1,417,957 of which \$138,000 is reserved for emergencies under TABOR and \$50,000 is reserved for Special Education per the contract with Adams 12.

#### ***Capital Improvements Fund***

In November 2016, Adams 12 Five Star School District passed a \$350 Million bond for improvements to the District and Charter Schools. Westgate received bond proceeds of \$2,184,371

in early 2017. Westgate will be using the funds for capital improvements to the school building and land, safety and security enhancements and technological upgrades. As of June 30, 2018, the capital improvements fund had expenditures of \$236,625 and interest earnings of \$2,513. Improvements made during the fiscal year include upgrading the security camera system, adding an intercom and lock system to the front door, significant network and technological upgrades, installation of a monument sign with LED screen and adding a PA system throughout campus. Future projects include further design and development of the outdoor education facilities.

### **Internal Service Fund (Building Corp)**

*Income*-The total income for the period ending June 30, 2018 was \$643,945. This income is derived from \$607,420 of rent payments from the school General Fund in accordance with the lease agreement and investment income. In addition, the Building Corporation financed the purchase and installation of LED lights in the school. The school makes monthly lease payments to the building corporation in the amount of the loan payments. Lease revenue for the LED lights for the year totaled \$27,117.

*Expenses*- Total expenses for the period ending June 30, 2018 were \$511,322. The interest expense for the year was \$392,929. Depreciation expense was \$107,041 for the year. Non-capital property expenditures totaled \$11,352 for improvements to restrooms.

*Net Income*- As of June 30, 2018, Westgate's Building Corp recorded a change in net position of \$132,623 providing for an ending net position of \$(424,046). The net position should become positive as the annual depreciation expense becomes less than the annual payment of principal on the bonds.

### **General Fund Budgetary Highlights**

Westgate budgeted for expenditures and transfers of \$3,962,908, for the year ended June 30, 2018. Actual expenditures and transfers were \$3,739,123. There were two budget amendments made during the year. The budget first revision was adopted on January 23, 2018 and primarily adjusted revenue and expenses for changes in estimated enrollment, reflected actual revenues for grant funding and included revenues and related expenditures for fee based student activities. The second revision was adopted June 17, 2018 and primarily included adjustments to salaries and benefits, and more closely reflected actual grant revenues and expenditures. As a part of the final budget revision, the Board of Directors committed \$100,000 for future working capital and \$40,000 for future capital improvements.

### **Capital Assets- General Fund**

*Capital Assets*-Westgate's investment in capital assets as of June 30, 2018, amounts to \$8,292 (net of accumulated depreciation). This investment in capital assets includes vehicles and removable improvements to the school. Depreciation related to the outdoor improvements for the year was \$33,267. Details of Westgate's capital assets are in Note 4 to the Financial Statements.

### **Capital Assets- Capital Improvement Fund**

*Capital Assets*- Westgate invested in an upgraded camera and security system, a campus-wide PA system and a monument sign. Depreciation related to all bond projects currently in service was \$32,393 for the year ended June 30.

## **Capital Asset and Debt Administration-Internal Service Fund**

*Capital Assets*-Westgate's Building Corp's investment in capital assets as of June 30, 2018 amounts to \$7,576,194, net of accumulated depreciation. These assets represent the building and improvements to the facility. Of this, the Building Corp has non-depreciable assets of \$2,834,000 in land acquisition costs. Accumulated depreciation on these assets is \$609,868. Details of Westgate's capital assets are in Note 4 to the Financial Statements.

*Long Term Debt*- As of June 30, 2018, the Building Corp had outstanding debt of \$8,882,072 related to the Series 2016 Bond issuance. On September 13, 2016, the building corporation obtained financing to purchase and install LED lights throughout the building. The total amount of the loan is \$134,604. The Building Corporation receives monthly payments from the school in the amount of the loan payment. Details of Westgate's long term debt can be found in Note 5 to the Financial Statements.

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

The primary factors driving the budget for Westgate are student enrollment and projected state funding. Final enrollment for the 2017-2018 school year was 482 FTE. Kindergarten students are funded at .58 FTE. These factors were considered in preparing Westgate's budget for 2017-2018. The 2018 projected PPR numbers came from recommendations from our authorizer, Adams 12. These projections were in line with state projections.

Westgate's preliminarily expects enrollment for the 2018-2019 school year to be 490 FTE.

On July 13, 2012 Westgate purchased a permanent facility, located at 12500 N Washington St, Thornton, CO. This property consists of two buildings totaling over 136,000 sq. ft. and is located on 20+ acres of land.

In 2016, Westgate received two grants from the Adams County Open Spaces Board. In the Fall 2015 cycle, Westgate was awarded \$58,300 to complete the design and construction documents for the vacant land. In the Spring 2016 cycle, Westgate received an additional \$435,711 in construction funds to build Phase I of the Westgate Environmental Education Campus. The Education Campus is made up of play areas, outdoor classrooms and gather spaces, a community plaza, measured walking trails, a greenhouse and chicken coop. Phase I of the project is being funded through the Adams County Open Spaces Grant, GOCO School Play-yard Grant, Colorado Garden Foundation Grant, and Westgate matching funds. In November 2016, Westgate opened Phase 1 of the Environmental Education Campus.

## **Requests for Information**

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

Westgate Community School  
12500 N Washington St  
Thornton, CO 80241

## **BASIC FINANCIAL STATEMENTS**

WESTGATE COMMUNITY SCHOOL

STATEMENT OF NET POSITION

June 30, 2018

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,467,065
Restricted Cash and Investments	2,349,401
Accounts Receivable	18,906
Prepaid Expenses	51,790
Capital Assets, Not Depreciated	2,834,000
Capital Assets, Net of Accumulated Depreciation	<u>5,781,710</u>
TOTAL ASSETS	<u>12,502,872</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources Related to Pensions	3,598,417
Deferred Outflows of Resources Related to OPEB	<u>14,311</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,612,728</u>
<b>LIABILITIES</b>	
Accounts Payable	7,454
Accrued Salaries and Benefits	112,350
Accrued Interest Payable	31,775
Noncurrent Liabilities	
Due Within One Year	255,017
Due in More Than One Year	8,502,785
Net Pension Liability	10,884,308
Net OPEB Liability	<u>248,552</u>
TOTAL LIABILITIES	<u>20,042,241</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Resources Related to Pensions	773,055
Deferred Inflows of Resources Related to OPEB	<u>4,158</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>777,213</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	(142,092)
Restricted for	
Emergencies	138,000
Special Education	50,000
Debt Service	2,317,626
Capital Improvements	1,560,064
Unrestricted	<u>(8,627,452)</u>
TOTAL NET POSITION	<u>\$ (4,703,854)</u>

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

WESTGATE COMMUNITY SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGE IN NET POSITION
PRIMARY GOVERNMENT					
<b>Governmental Activities</b>					
Instruction	\$ 3,468,509	\$ 366,734	\$ 107,579	\$ -	\$ (2,994,196)
Supporting Services	2,128,445	25,089	-	128,171	(1,975,185)
Interest on Long-Term Debt	392,929	-	-	-	(392,929)
Total Governmental Activities	<u>\$ 5,989,883</u>	<u>\$ 391,823</u>	<u>\$ 107,579</u>	<u>\$ 128,171</u>	<u>(5,362,310)</u>
			GENERAL REVENUES		
			Per Pupil Revenue		3,637,536
			Contributions not Restricted to Specific Programs		2,000
			Investment Income		11,717
			Other		68,456
			TOTAL GENERAL REVENUES		<u>3,719,709</u>
			CHANGE IN NET POSITION		(1,642,601)
			NET POSITION, Beginning, As Restated		<u>(3,061,253)</u>
			NET POSITION, Ending		<u>\$ (4,703,854)</u>

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

WESTGATE COMMUNITY SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
 June 30, 2018

	<u>GENERAL FUND</u>	<u>CAPITAL IMPROVEMENTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>			
Cash and Investments	\$ 1,467,065	\$ -	\$ 1,467,065
Cash and Investments - Restricted	-	1,560,064	1,560,064
Accounts Receivable	18,906	-	18,906
Prepaid Expenses	51,790	-	51,790
<b>TOTAL ASSETS</b>	<u>\$ 1,537,761</u>	<u>\$ 1,560,064</u>	<u>\$ 3,097,825</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 7,454	\$ -	\$ 7,454
Accrued Salaries and Benefits	112,350	-	112,350
<b>TOTAL LIABILITIES</b>	<u>119,804</u>	<u>-</u>	<u>119,804</u>
<b>FUND BALANCES</b>			
Nonspendable	51,790	-	51,790
Restricted for:			
Emergencies	138,000	-	138,000
Special Education	50,000	-	50,000
Capital Improvements	-	1,560,064	1,560,064
Committed for:			
Working Capital	100,000	-	100,000
Capital Improvements	40,000	-	40,000
Unassigned	1,038,167	-	1,038,167
<b>TOTAL FUND BALANCES</b>	<u>1,417,957</u>	<u>1,560,064</u>	<u>2,978,021</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,537,761</u>	<u>\$ 1,560,064</u>	<u>\$ 3,097,825</u>

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

WESTGATE COMMUNITY SCHOOL

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
 June 30, 2018

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balances of Governmental Funds	\$ 2,978,021
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	1,039,516
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources - difference in projected vs actual investment earnings	201,607
Deferred outflows of resources - difference in expected vs actual experience	197,474
Deferred outflows of resources - difference in expected vs actual experience - OPEB	1,175
Deferred outflows of resources - change in proportionate share of net pension liability	308,822
Deferred outflows of resources - change in proportionate share of net OPEB liability	5,076
Deferred outflows of resources - pension contributions from the measurement date	159,461
Deferred outflows of resources - OPEB contributions from the measurement date	8,060
Deferred outflows of resources - change in assumptions or other inputs	2,731,053
Deferred inflows of resources - difference in projected vs actual investment earnings	(643,213)
Deferred inflows of resources - difference in projected vs actual investment earnings - OPEB	(4,158)
Deferred inflows of resources - change in assumptions or other inputs	(16,123)
Deferred inflows of resources - change in proportionate share of net pension liability	(113,719)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These are the amounts of the net pension liability and net OPEB liability.	(11,132,860)
An internal service fund is used by management to charge the lease costs to governmental funds. These assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	<u>(424,046)</u>
Total Net Position of Governmental Activities	<u>\$ (4,703,854)</u>

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

WESTGATE COMMUNITY SCHOOL

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

	<u>GENERAL FUND</u>	<u>CAPITAL IMPROVEMENTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Local Sources	\$ 4,207,394	\$ 2,513	\$ 4,209,907
State Sources	128,171	-	128,171
TOTAL REVENUES	<u>4,335,565</u>	<u>2,513</u>	<u>4,338,078</u>
EXPENDITURES			
Current			
Instruction	1,816,852	-	1,816,852
Supporting Services	1,922,271	236,625	2,158,896
TOTAL EXPENDITURES	<u>3,739,123</u>	<u>236,625</u>	<u>3,975,748</u>
NET CHANGE IN FUND BALANCES	596,442	(234,112)	362,330
FUND BALANCES, Beginning	<u>821,515</u>	<u>1,794,176</u>	<u>2,615,691</u>
FUND BALANCES, Ending	<u>\$ 1,417,957</u>	<u>\$ 1,560,064</u>	<u>\$ 2,978,021</u>

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

WESTGATE 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 of Governmental Funds	\$ 362,330
Capital outlays to purchase or build capital assets are reported in the governmental fund as expenditures. However, for governmental activities those costs are capitalized 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 that capital outlay \$75,994 exceeded depreciation expense (\$68,537) in the current year.	7,457
In the statement of activities, certain operating expenses, pension expense, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or due (the amounts actually paid). This amount represents the net effect of pension related amounts, including amortization of deferred outflows and deferred inflows of resources related to pensions and OPEB, in the statement of activities.	(2,140,680)
In the statement of activities, certain operating expenses, pension expense, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or due (the amounts actually paid). This amount represents the net effect of OPEB related amounts, including amortization of deferred outflows and deferred inflows of resources related to pensions and OPEB, in the statement of activities.	(4,331)
The internal service fund is used by management to charge the cost of lease payments to the governmental fund. The net revenue (expense) of the internal service fund is reported with the governmental activities	<u>132,623</u>
Change in Net Position of Governmental Activities	<u>\$ (1,642,601)</u>

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

PROPRIETARY FUND TYPE  
BUILDING CORPORATION

June 30, 2018

	<u>Governmental Activities Internal Service Fund</u>
<b>ASSETS</b>	
Current Assets	
Restricted Cash and Investments	\$ 789,337
Total Current Assets	<u>789,337</u>
Noncurrent Assets	
Capital Assets, Not Being Depreciated	2,834,000
Capital Assets, Net of Accumulated Depreciation	<u>4,742,194</u>
Total Noncurrent Assets	<u>7,576,194</u>
TOTAL ASSETS	<u>8,365,531</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accrued Interest Payable	31,775
Note Payable - Current Portion	28,898
Building Lease Payable - Current Portion	<u>226,119</u>
Total Current Liabilities	<u>286,792</u>
Noncurrent Liabilities	
Note Payable	63,575
Building Lease Payable	<u>8,439,210</u>
Total Noncurrent Liabilities	<u>8,502,785</u>
TOTAL LIABILITIES	<u>8,789,577</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	(1,089,135)
Restricted for Debt Service	<u>665,089</u>
TOTAL NET POSITION	<u>\$ (424,046)</u>

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

# WESTGATE COMMUNITY SCHOOL

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

### PROPRIETARY FUND TYPE

### BUILDING CORPORATION

Year Ended June 30, 2018

	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES	
Building Rent	\$ 634,741
Investment Income	9,204
TOTAL OPERATING REVENUES	<u>643,945</u>
OPERATING EXPENSES	
Non-capital Property	11,352
Depreciation	107,041
TOTAL OPERATING EXPENSES	<u>118,393</u>
OPERATING INCOME	525,552
NON-OPERATING EXPENSES	
Interest Expense and Fiscal Charges	<u>(392,929)</u>
CHANGE IN NET POSITION	132,623
NET POSITION, Beginning	<u>(556,669)</u>
NET POSITION, Ending	<u>\$ (424,046)</u>

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

WESTGATE COMMUNITY SCHOOL

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
BUILDING CORPORATION

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2018

	<u>Governmental Activities Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Rental Operations	\$ 634,741
Investment Income	9,204
Cash Payments for Purchased Services	<u>(11,352)</u>
Net Cash Provided by Operating Activities	<u>632,593</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal Paid on Lease	(216,743)
Principal Paid on Note Payable	(23,506)
Interest Paid on Lease and Loan	<u>(393,710)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(633,959)</u>
Decrease in Cash and Cash Equivalents	(1,366)
CASH AND CASH EQUIVALENTS, Beginning	<u>790,703</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 789,337</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 525,552
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	<u>107,041</u>
Net Cash Provided by Operating Activities	<u><u>\$ 632,593</u></u>

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

The Westgate Community School (the "School") was formed in 2009 pursuant to the Colorado Charter Schools Act to form and operate a charter school within Adams County School District No. 12 (the "District"). The School is governed by a six-member Board of Directors.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) for the year ended June 30, 2018. Adoption of this statement revised and established new reporting requirements for other postemployment benefits provided by the School to its employees (See NOTE 10). Following is a summary of the more significant policies.

**Reporting Entity**

The definition of the reporting entity is based primarily on financial accountability. The School is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if School officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the School. The School may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of this criteria, the School will include the following organization in its reporting entity.

Westgate Community School Building Corporation

The purpose of the Westgate Community School Building Corporation (the "Building Corporation") is to provide a mechanism to issue and pay debt on behalf of the School. The Building 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 financial statements as an internal service fund. As part of its ongoing responsibilities, the Building Corporation provides the School with monthly financial statements. Separate financial statements are not available.

The School is a component unit of Adams County School District No. 12.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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 net position reports all financial, capital and debt resources of the School. The difference between the assets plus deferred outflows of resources and liabilities and deferred inflows of resources of the School is reported as net position.

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, the School reports the following major governmental funds:

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

*Capital Improvements Fund* is used to account for the activity of the 2016 bond funds received from the Adams 12 School District as a result of the bond election.

Additionally, the School reports the following fund type:

*Internal Service Fund* is used to account for the activity of the Building Corporation.

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

*Cash and Investments* – Cash equivalents include investments with original maturities of three months or less. Investments are stated at fair value.

*Prepaid expenses* – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

*Capital Assets* - Capital assets, which include land, building and improvements, and equipment, are reported 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

*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 approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability in the General Fund.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The School has items related to pensions and other postemployment benefits that are reported as deferred outflows of resources at June 30, 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until then. The Schools has an item related to pensions that is reported as deferred inflows of resources at June 30, 2018.

*Net Position* – In the government-wide and proprietary fund type financial statements, net position is restricted when constraints placed on the net position are externally imposed.

- Net Investment in Capital Assets – this classification is intended to report the portion of net position which is associated with non-liquid, capital assets less outstanding debt related to those capital assets.
- Restricted Net Position – this classification includes liquid assets which have third party limitations on their use.
- Unrestricted Net Position – this classification includes assets that do not have any third party limitation on their use.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Assets, Liabilities and Net Position/Fund Balances** (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 (a) not in spendable form (such as prepaid items) or (b) are legally or contractually required to be maintained intact. The School had nonspendable resources in the form of prepaid expenses at 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 its use is restricted by State statute for declared emergencies. The School has also classified a special education reserve as restricted as required by the charter school agreement, and debt service reserve as required by the building lease.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors. The School had committed resources for future working capital and capital improvements at June 30, 2018.
- Assigned – This classification includes amounts that are constrained by the School's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or changed than those imposed on committed amounts. The School did not have any assigned fund balance at 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

The School has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both the restricted and unrestricted fund balances are available the School uses restricted fund balance first.

*Compensated Absences* – The School’s policy allows employees to accumulate paid time off (PTO) depending on the employee’s position. Most contracted staff receive 8 days of PTO. Unused PTO is paid out before the end of the year at a rate of \$75 per day. Therefore, no unused PTO liability is reported at June 30, 2018.

**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.

**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, benefit payments 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.

**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 purchases commercial insurance for these risks of loss and for directors’ and officers’ liability.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Income Taxes**

The School and Building Corporation are exempt from income tax under Sections 501(c)(3) of the United States Internal Revenue Code. The School and Building Corporation did not have any material unrelated business income tax liability for the year ended June 30, 2018. The School's and Building Corporation's tax filings are subject to audit by various taxing authorities. The School's and Building Corporation's ending open audit periods are June 30, 2015, 2016, 2017 and 2018. The School and Building Corporation believe they have no significant uncertain tax provisions for the period ended June 30, 2018.

**Subsequent Events**

The School has evaluated events subsequent to the year ended June 30, 2018 through August 27, 2018, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

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

**Accountability**

The Governmental Activities and the Internal Service Fund - Building Corporation has deficit net position of \$4,703,854 and \$424,046, respectively, at June 30, 2018. The Governmental Activities deficit is primarily related to the net pension liability and net OPEB liability added to the School's financial statements as required by the GASB. Management does not know if this deficit net position will increase/decrease in the future because the GASB accounting standard does not require the School to fund the net pension liability and or net OPEB liability. The Internal Service Fund - Building Corporation deficit is primarily from the debt issuance costs and accrued interest expense related to the bonds issued to purchase and improve land and building. Management expects this deficit balance to be eliminated as the debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

At June 30, 2018, the School had the following cash and investments.

Cash and Investments	\$ 1,467,065
Restricted Cash and Investments	<u>2,349,401</u>
Total	<u>\$ 3,816,467</u>

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all local government entities deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to \$250,000 for each financial institution. The 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2018, the School had cash deposits with a carrying amount of \$3,027,130. The bank balances with the financial institutions were \$3,090,260, of which \$250,000 was insured by the FDIC and \$2,840,260 was collateralized with securities held by the financial institutions' agents but not in the School's name.

**Investments**

The School does not have a formal investment policy; however, the School follows state statutes regarding investments. The School generally limits its concentration risk of investments to Local Government Investment Pools, obligations of the United States and certain U. S. government agency securities, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the School is not subject to concentration of risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Trustees. Such actions are generally associated with a debt service reserve or sinking fund requirements.

State statutes specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following.

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Investments (Continued)**

At June 30, 2018, the School had the following investments:

	<u>Maturity</u>	<u>2018</u>
Colorado Liquid Government Asset Trust (COLOTRUST)	Weighted Average under 60 days	<u>\$ 789,337</u>

The School invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS +. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rates commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the School records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. The School does not have a policy for managing credit risk or interest rate risk.

**Restricted Cash and Investments**

Restricted cash and investments consist of \$789,337 restricted in the Building Corporation for bond reserves, bond principal and interest payments, and a project construction account. In addition, the School received a portion of the Adams 12 School District's 2016 bond issue for the purpose of capital improvements to be made to the School's facilities. The amount restricted for capital improvements at June 30, 2018 is \$1,560,064.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, is summarized below:

	<u>Balances 6/30/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 6/30/2018</u>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated				
Land	\$ 2,834,000	\$ -	\$ -	\$ 2,834,000
Capital Assets, being depreciated				
Buildings and Improvements	6,401,229	75,994	-	6,477,223
Equipment	17,379	-	-	17,379
Total Capital Assets, being depreciated	<u>6,418,608</u>	<u>75,994</u>	<u>-</u>	<u>6,494,602</u>
Less accumulated depreciation				
Buildings and Improvements	(528,227)	(172,702)	-	(700,929)
Furniture and Equipment	(9,087)	(2,876)	-	(11,963)
Total accumulated depreciation	<u>(537,314)</u>	<u>(175,578)</u>	<u>-</u>	<u>(712,892)</u>
Total Capital Assets, being depreciated, net	<u>5,881,294</u>	<u>(99,584)</u>	<u>-</u>	<u>5,781,710</u>
Governmental Activities Capital Assets, net	<u>\$ 8,715,294</u>	<u>\$ (99,584)</u>	<u>\$ -</u>	<u>\$ 8,615,710</u>

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

**NOTE 5: LONG-TERM DEBT**

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

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2018</u>	<u>Due Within One Year</u>
Building Lease - 2016	\$ 8,882,072	\$ -	\$ 216,743	\$ 8,665,329	\$ 226,119
Note Payable	115,979	-	23,506	92,473	28,898
Totals	<u>\$ 8,998,051</u>	<u>\$ -</u>	<u>\$ 240,249</u>	<u>\$ 8,757,802</u>	<u>\$ 255,017</u>

**Building Lease**

On May 1, 2016, the Public Finance Authority issued \$6,362,887 Charter School Refunding and Improvement Revenue Bonds (Westgate Community School Project) Series 2016A, and \$2,726,952 Charter School Refunding and Improvement Revenue

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**NOTE 5: LONG-TERM DEBT (Continued)**

Bonds (Westgate Community School Project) Series 2016B (Taxable). These bonds were issued to refund the Charter School Revenue Bonds, Series 2012, fund the debt services reserve, accrued interest account, pay certain issuance costs and fund the project account. Both Series mature on May 2, 2026. Interest on the Series 2016A and Series 2016B (Taxable) accrues at 3.896% and 5.565% per annum, respectively. The Bonds may be called at various dates beginning May 3, 2016 through May 20, 2021 at rates ranging from 105% to 101% and 100% after May 3, 2021.

The School is obligated to make monthly lease payments to the Building Corporation for use of the building. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds.

**Note Payable**

On September 13, 2016, the Building Corporation obtained financing from a local bank in the amount of \$134,604 for the purposes of upgrading the lighting system to LED lighting. Principal and interest payments of \$2,484 are due on the 30<sup>th</sup> day of each month, through September 30, 2021. Interest accrues at 3.95% per annum. The School makes monthly payments to the Building Corporation equal to the amount of the loan payments.

**Future Debt Service Requirements**

Annual debt service requirements for the Building Lease at June 30, 2018, were as follows.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 226,119	\$ 380,485	\$ 606,604
2020	235,911	370,657	606,568
2021	246,138	360,390	606,528
2022	256,823	349,666	606,489
2023	267,985	565,797	833,782
2024-2026	7,432,353	1,611,304	9,043,657
	<u>\$ 8,665,329</u>	<u>\$ 3,638,299</u>	<u>\$ 12,303,628</u>

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**NOTE 5: LONG-TERM DEBT** (Continued)

Annual debt service requirements for the note payable at June 30, 2018, were as follows.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 28,898	\$ 3,086	\$ 31,984
2020	27,794	2,011	29,805
2021	28,911	894	29,805
2022	6,870	44	6,914
	<u>\$ 92,473</u>	<u>\$ 6,035</u>	<u>\$ 98,508</u>

**NOTE 6: DEFINED BENEFIT 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](http://www.copera.org/investments/pera-financial-reports).

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

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

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- The value of the retiring employee’s member contribution account plus a 100% 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

In all cases the service retirement benefit is limited to 100% 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% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), 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%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% 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% or the average CPI-W for the prior calendar year, not to exceed 10% 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**Contributions.** 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:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
	(1)	(1)
Employer Contribution Rate	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)	<u>-1.02%</u>	<u>-1.02%</u>
Amount Apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. 24- 51-1411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. 24-51-1411	<u>5.00%</u>	<u>5.50%</u>
Total Employer Contribution Rate to the SCHDTF	<u><u>18.63%</u></u>	<u><u>19.13%</u></u>

(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 \$289,589 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 \$10,884,308 for its proportionate share of the net pension liability. The net pension liability 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 School 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 .03366%, which was an increase of .00084% from its proportion measured as of December 31, 2016. For the year ended June 30, 2018, the School recognized pension expense of \$2,140,680.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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	\$ 197,474	\$ -
Changes in assumptions or other inputs	2,731,053	(16,123)
Net difference between projected and actual earnings on pension plan investments	201,607	(643,213)
Changes in proportion and differences between contributions recognized and proportionate share of contributions	308,822	(113,719)
Contributions subsequent to the measurement date	159,461	-
Total	<u>\$ 3,598,417</u>	<u>\$ (773,055)</u>

\$159,461 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	\$ 1,717,624
2020	1,070,278
2021	38,803
2022	(160,804)

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

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

A discount rate of 4.78% was used in the rollforward 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% factor applied to male rates and a 55% 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% factor applied to rates for ages less than 80, a 113% factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2016 projection scale, a 68% factor applied to rates for ages less than 80, a 106% factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90% of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the 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 at 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 by the investment consultant 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
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%
Corer Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

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%. The projection of cash flows used to determine the discount rate 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 contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

Based on the above actuarial cost method and assumptions, 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% on pension plan investments was applied to all 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 Board of Governors of the Federal Reserve System, 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%, resulting in a discount rate of 4.78%.

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**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%, 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%) or 1-percentage-point higher (5.78%) than the current rate:

	<u>1% Decrease (3.78%)</u>	<u>Current Discount Rate (4.78%)</u>	<u>1% Increase (5.78%)</u>
Net Pension Liability	\$ 13,748,732	\$ 10,884,308	\$ 8,550,130

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

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

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

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018, the School reported a liability of \$10,884,308 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 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%	\$4,917,436

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 \$5,080,863 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

**NOTE 7: DEFINED CONTRIBUTION PENSION PLAN**

Voluntary Investment Program

**Plan Description.** Employees of the School that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S, as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Plan. The report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED CONTRIBUTION PENSION PLAN**

**Funding Policy.** The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S, as amended. The School does not match employee contributions. Employees are immediately vested in their contributions. For the year ended June 30, 2018, program members contributed \$300, equal to the required contributions for the Voluntary Investment Program.

**NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (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](http://www.copera.org/investments/pera-financial-reports).

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

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

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

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$15,837 for the year ended June 30, 2018.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**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**

At June 30, 2018, the School reported a liability of \$248,552 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 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 0.01913%, which was an increase of 0.00047% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$4,331. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,175	\$ -
Net difference between projected and actual earnings on pension plan investments	-	(4,158)
Changes in proportion and differences between contributions recognized and proportionate share of contributions	5,076	-
Contributions subsequent to the measurement date	8,060	-
Total	<u>\$ 14,311</u>	<u>\$ (4,158)</u>

\$8,060 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	\$	188
2020	\$	188
2021	\$	188
2022	\$	190
2023	\$	1,228
2024	\$	111

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

Actuarial Cost Method:	Entry age
Price inflation:	2.40%
Real wage growth:	1.10%
Wage inflation:	3.50%
Salary increases, including wage inflation:	3.50% in aggregate
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation:	7.25%
Discount rate:	7.25%
Health care cost trend rates	
PERA Benefit Structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	5.00%
Medicare Part A premiums	3.00% for 2017, gradually Rising to 4.25% in 2023

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

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

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

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

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

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

- **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:

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

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

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- 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.

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

- 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.

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:

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

**Sensitivity of the 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 Rate	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	\$ 241,713	\$ 248,552	\$ 256,788

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

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

WESTGATE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

- 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 Net OPEB Liability	\$ 279,450	\$ 248,552	\$ 222,179

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

**NOTE 9: 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.



**REQUIRED SUPPLEMENTARY INFORMATION**

WESTGATE COMMUNITY SCHOOL

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 3,535,903	\$ 3,634,147	\$ 3,637,536	\$ 3,389
Tuition and Fees	294,080	313,860	366,734	52,874
Grants	102,842	106,162	107,579	1,417
Contributions	50,000	-	2,000	2,000
Other	34,000	63,000	93,545	30,545
Total Local Sources	<u>4,016,825</u>	<u>4,117,169</u>	<u>4,207,394</u>	<u>90,225</u>
State Sources				
Capital Construction	<u>118,625</u>	<u>123,121</u>	<u>128,171</u>	<u>5,050</u>
<b>TOTAL REVENUES</b>	<u>4,135,450</u>	<u>4,240,290</u>	<u>4,335,565</u>	<u>95,275</u>
<b>EXPENDITURES</b>				
Instruction				
Salaries and Benefits	1,479,061	1,435,204	1,422,574	12,630
Purchased Services	280,605	286,449	239,891	46,558
Supplies and Materials	80,648	80,532	131,925	(51,393)
Property	27,770	28,390	22,462	5,928
Total Instruction	<u>1,868,084</u>	<u>1,830,575</u>	<u>1,816,852</u>	<u>13,723</u>
Supporting Services				
School Administration				
Salaries	786,188	844,743	792,663	52,080
Purchased Services	1,002,884	998,229	976,161	22,068
Supplies and Materials	150,808	165,308	142,755	22,553
Property	80,000	119,208	7,055	112,153
Other	4,745	4,845	3,637	1,208
Total Supporting Services	<u>2,024,625</u>	<u>2,132,333</u>	<u>1,922,271</u>	<u>210,062</u>
<b>TOTAL EXPENDITURES</b>	<u>3,892,709</u>	<u>3,962,908</u>	<u>3,739,123</u>	<u>223,785</u>
<b>NET CHANGE IN FUND BALANCE</b>	242,741	277,382	596,442	319,060
FUND BALANCE, Beginning	<u>470,222</u>	<u>821,515</u>	<u>821,515</u>	<u>351,293</u>
FUND BALANCE, Ending	<u>\$ 712,963</u>	<u>\$ 1,098,897</u>	<u>\$ 1,417,957</u>	<u>\$ 670,353</u>

See the accompanying Independent Auditor's Report.

WESTGATE COMMUNITY SCHOOL

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERA School Division Trust Fund Pension Plan

Last Ten Years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability (Asset)	0.03366%	0.03282%	0.03077%	0.03556%	0.02661%
Proportionate Share of the Net Pension Liability (Asset)	\$ 10,884,308	\$ 9,772,601	\$ 4,706,685	\$ 4,817,695	\$ 3,393,629
Covered Employee Payroll	\$ 1,552,675	\$ 1,473,145	\$ 1,335,054	\$ 1,432,893	\$ 1,326,940
Proportionate Share of Net Pension Liability as a Percentage of its Covered Employee Payroll	701.00%	663.38%	352.55%	336.22%	255.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43.96%	43.13%	59.16%	62.84%	64.07%
Total Pension Liability - PERA SCHDTF	\$ 57,699,176,000	\$ 52,354,913,000	\$ 37,447,062,000	\$ 36,473,966,000	\$ 35,494,976,000
Plan Fiduciary Net Position - PERA SCHDTF	25,362,730,000	22,581,046,000	22,152,768,000	22,920,607,000	22,740,003,000
Net Pension Liability - PERA SCHDTF	<u>\$ 32,336,446,000</u>	<u>\$ 29,773,867,000</u>	<u>\$ 15,294,294,000</u>	<u>\$ 13,553,359,000</u>	<u>\$ 12,754,973,000</u>

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

NOTE: Information for the prior five years was not available to report.

See the accompanying Independent Auditor's Report.

WESTGATE COMMUNITY SCHOOL

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS

PERA School Division Trust Fund Pension Plan

Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 289,263	\$ 286,434	\$ 247,496	\$ 229,980	\$ 220,445	\$ 179,275
Contributions in Relation to the Contractually Required Contribution	<u>289,263</u>	<u>286,434</u>	<u>247,496</u>	<u>229,980</u>	<u>220,445</u>	<u>179,275</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,532,113	\$ 1,558,400	\$ 1,395,917	\$ 1,362,417	\$ 1,379,509	\$ 1,188,828
Contributions as a Percentage of Covered Employee Payroll	18.88%	18.38%	17.73%	16.88%	15.98%	15.08%

NOTE: Information for the prior four years was not available to report.

See the accompanying Independent Auditor's Report.

WESTGATE COMMUNITY SCHOOL

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 PERA Health Care Trust Fund Plan  
 Last Ten Years\*

	2017	2016
Proportion of the Net OPEB Liability (Asset)	0.01913%	0.01866%
Proportionate Share of the Net OPEB Liability (Asset)	\$ 248,552	\$ 241,893
Covered Employee Payroll	\$ 1,552,675	\$ 1,473,145
Proportionate Share of Net OPEB Liability as a Percentage of its Covered Employee Payroll	16.01%	16.42%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	17.53%	16.72%
Total OPEB Liability - PERA HCTF	\$ 1,575,822,000	\$ 1,556,762,000
Plan Fiduciary Net Position - PERA HCTF	276,222,000	260,228,000
Net OPEB Liability - PERA HCTF	\$ 1,299,600,000	\$ 1,296,534,000

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

NOTE: Information for the prior eight years was not available to report.

See the accompanying Independent Auditor's Report.

# WESTGATE COMMUNITY SCHOOL

## SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS

PERA Health Care Trust Fund Plan

Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 15,837	\$ 15,026
Contributions in Relation to the Contractually Required Contribution	<u>15,837</u>	<u>15,026</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,552,675	\$ 1,473,145
Contributions as a Percentage of Covered Employee Payroll	1.02%	1.02%

NOTE: Information for the prior eight years was not available to report.

See the accompanying Independent Auditor's Report.

WESTGATE COMMUNITY SCHOOL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

**NOTE 1: BUDGETARY INFORMATION**

**Budgets and Budgetary Accounting**

A budget is legally adopted for the General Fund of the School on a basis consistent with generally accepted accounting principles (GAAP).

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

- In April, School management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1<sup>st</sup>. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30<sup>th</sup>, the budget is adopted by the Board of Directors.
- Expenditures may not exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- All appropriations lapse at year end.

**Legal Compliance**

For the year ended June 30, 2018, the School did not approve a budget for the Capital Improvements Fund. This may be a violation of State statutes.