

SUMMIT MIDDLE CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2018

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SUMMIT MIDDLE CHARTER SCHOOL

ROSTER OF SCHOOL OFFICIALS

June 30, 2018

BOARD MEMBERS

Michelle Moore Hernandez, Chair

Tony Wibbeler, Secretary

Ron Wawrzynek, Treasurer

Jill Oliver, Member

Kevin Hall, Member

Nina Lopez, Member

Debbie Stewart, Member

Ross Wehner, Member

Renee Garcia, Member

Adam Galvin, Principal, Ex-Officio

SCHOOL MANAGEMENT

Adam Galvin, Principal

Cece Davis, Assistant Principal

Shelly Hendrick, Business Manager

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Summit Middle School
Boulder, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, the discretely presented component unit, and remaining fund information of Summit Middle School, a component unit of Boulder Valley School District, as of and for the year ended June 30, 2018, which collectively comprise Summit Middle School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, the discretely presented component unit, and remaining fund information of Summit Middle 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 Matters

Separate Charter School

Summit Middle School has a separate charter school contract with Boulder Valley School District. The Colorado Department of Education requires each School to provide separate audited financial statements. As described in Note 1, the majority of the School's funding is provided by the District. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Standard

During the fiscal year ended June 30, 2018, Summit Middle School adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As a result of the implementation of GASB Statement No. 75, Summit Middle School reported a restatement for the change in accounting principle. See Note 8 of the notes to the financial statements for further information. Our opinions were not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii – viii, budgetary comparison information on page 29 and pension and other post-employment benefits schedules on pages 30 – 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Summit Middle School's basic financial statements. The budgetary comparison schedule - Operations and Technology Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule - Operations and Technology Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - Operations and Technology Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Broomfield, Colorado
November 1, 2018

SUMMIT MIDDLE CHARTER SCHOOL

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018

As management of Summit Middle Charter School ("the School"), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

Founded by parents in 1996 as the first charter school in the Boulder Valley School District RE-2 ("the District"), the School has received several National Blue Ribbon Awards for academic excellence.

Financial Highlights

- The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$8,076,543 (net position).
- Total net position decreased \$2,050,761 during 2018.
- At the close of the current fiscal year, the School's governmental funds reported fund balance of \$1,293,762, an increase of \$201,488 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund is \$1,046,060, or approximately 29.3% of total general fund expenditures.

Overview of Financial Statements

The discussion and analysis are intended to serve as an introduction to the School'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 basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include not only the School itself (known as the "primary government"), but also a legally separate entity, Supporters of Summit, Inc. Financial information for this discretely presented component unit is reported separately from the financial information presented for the primary government. Supporters of Summit, Inc., although a legally separate organization, exists

solely for the benefit of the School, and therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 1-3.

Fund Financial Statements. Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. 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. 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. Both the balance sheet and the statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities.

The School reports one governmental fund that is considered a major fund, the general fund, and one additional fund reported as a non-major governmental fund. The basic governmental fund financial statements can be found on pages 4-5. Fund information for the nonmajor fund is presented after the notes section of this report.

Notes to Basic Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 6-28.

Government-Wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year.

At June 30, 2018, \$122,575 of the School's net position represents its investment in capital assets. An additional \$246,902 represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position is a deficit of \$8,446,020, which represents the portion that is unrestricted and would otherwise be used to meet the School's ongoing obligations.

Net position is \$2,310,460 less than the amount reported in the prior year, which is due partially to a \$259,699 restatement (reduction) of net position as of June 30, 2017 related to the implementation of GASB No. 75. As a result, the School reported a net other postemployment benefit (OPEB) liability of \$277,556, deferred outflows of resources of \$17,786 and deferred inflows of resources of \$4,643 in the current year. Such balances were not required to be reported in the prior year.

**Summit Middle Charter School
Comparative Summary of Net Position**

	Governmental Activities	
	<u>2018</u>	<u>2017 (*)</u>
Assets		
Current and other assets	\$ 1,477,148	\$ 1,305,938
Capital assets	122,575	77,518
Total Assets	<u>1,599,723</u>	<u>1,383,456</u>
Deferred Outflows of Resources	<u>3,680,756</u>	<u>4,278,169</u>
Liabilities		
Current liabilities	183,386	213,664
Long-term liabilities	240,000	320,000
Net pension liability	12,154,427	10,844,725
Net OPEB liability	277,556	-
Total Liabilities	<u>12,855,369</u>	<u>11,378,389</u>
Deferred Inflows of Resources	<u>501,653</u>	<u>49,319</u>
Net Position		
Investment in capital assets	122,575	77,518
Restricted	246,902	188,855
Unrestricted	<u>(8,446,020)</u>	<u>(6,032,456)</u>
Total Net Position (*)	<u>\$ (8,076,543)</u>	<u>\$ (5,766,083)</u>

(*) 2017 balances have not been restated for the implementation of GASB No. 75, as such balances are not required to be and cannot be determined. See Note 8.

Current and other assets include cash and prepaid items and increased \$171,210 (13.1%), due primarily to an excess of revenues over expenses, excluding adjustment to net pension and OPEB expense.

Net pension liability increased \$1,309,702, in addition to changes in related deferred inflows of resources and deferred outflows of resources, due to the application of GASB Nos. 68 and 71, the net impact of which caused the School to recognize approximately \$2,373,000 of pension related expense during 2018.

After considering the restatement described above, net position decreased \$2,050,761 during 2018, the reasons for which are discussed below.

**Summit Middle Charter School
Comparative Summary of Changes in Net Position**

	Governmental Activities	
	<u>2018</u>	<u>2017 (*)</u>
Revenues:		
Program revenues		
Charges for services	\$ 80,771	\$ 95,963
Operating grants and contributions	40,153	60,565
Capital grants and contributions	67,636	87,480
General revenues		
Per pupil revenue	2,717,797	2,621,446
Mill levy override	1,040,062	919,707
Grants and contributions not restricted	13,432	674
Total Revenues	<u>3,959,851</u>	<u>3,785,835</u>
Expenses:		
Instruction	3,493,774	3,014,601
Supporting services	<u>2,516,838</u>	<u>2,646,230</u>
Total Expenses	<u>6,010,612</u>	<u>5,660,831</u>
Change in net position	(2,050,761)	(1,874,996)
Net Position, Beginning, as Restated (*)	<u>(6,025,782)</u>	<u>(3,891,087)</u>
Net Position , Ending	<u><u>\$ (8,076,543)</u></u>	<u><u>\$ (5,766,083)</u></u>

(*) 2017 balances have not been restated for the implementation of GASB No. 75, as such balances are not required to be and cannot be determined. See Note 8.

Total revenues increased \$174,016 from the prior year. The School's primary source of revenue, per pupil revenues and mill levy overrides, flow from the District based upon the School's enrollment. 2018 per pupil revenue increased \$96,351 (3.7%) based on a slight increase in enrolled students compared to the previous fiscal year, in addition to a 2.8% cost of living adjustment, as determined by the State. The School shares in the District's mill levy override revenues on a per pupil basis and received an additional \$120,355 in 2018, due primarily to an increase in the operations and technology mill levy approved by voters in November 2016.

Total expenses increased \$349,781 (6.2%) from the prior year, comprised of an increase of approximately \$487,000 in pension and OPEB and related costs, and an increase in personnel costs in accordance with the School's approved salary schedule. Increases are offset by a \$400,000 decrease in capital contributions to the District. There are no such contributions in the current year.

Financial Analysis of the General Fund

The focus of the School's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, an unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not yet been limited to use for a particular purpose by either an external party, the School itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes.

At the end of the current fiscal year, unassigned fund balance of the School's general fund was \$1,046,060, while the total fund balance increased \$178,527 to \$1,246,685. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 29.3% of total general fund expenditures, while total fund balance represents approximately 34.9% of the same amount.

General Fund Budgetary Highlights

A General Fund Budgetary Comparison Schedule is located on page 29 of the financial statements.

Actual revenues were consistent with budgeted revenues. Actual expenditures were \$1,298,089 less than budget, due primarily to unspent budgeted reserves of \$1,036,507. Remaining expenditures were also less than budgeted expenditures, due primarily to instruction expenditures that were \$236,513 less than budget.

Capital Assets and Debt Administration

Capital Assets. The School's investment in capital assets (net of depreciation) as of June 30, 2018, and 2017 is as follows.

Summit Middle Charter School Capital Assets (Net of Depreciation)

	Governmental Activities	
	2018	2017
Building and Improvements	\$ 110,346	\$ 77,518
Equipment	12,229	-
	<u>\$ 122,575</u>	<u>\$ 77,518</u>

As noted earlier, the School's contract with the District allows the School to use buildings owned by the District. Accordingly, their building is not reported as a capital asset of the School. However, certain improvements made by the School are reported as capital assets by the School.

Current year increase is due primarily to completion of an outdoor shade structure, offset by depreciation expense. Additional information on capital assets can be found in Note 3 of the financial statements.

Long-Term Debt. The School's long-term debt as of June 30, 2018, and 2017 is as follows.

**Summit Middle Charter School
Long-term Debt**

	Governmental Activities	
	2018	2017
Note Payable	<u>\$ 240,000</u>	<u>\$ 320,000</u>

As part of the Educational Facilities Master Plan, the District completed a capital construction project to improve the building used by the School. At the time of construction, the School contributed \$400,000 to the District to enhance the scope of the project. The contribution was made in the form of a loan from the District. The School made one of five annual \$80,000 principal repayments in the current year.

Additional information on long-term debt can be found in Note 4 of the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the School's budget is student enrollment. Enrollment for the 2017-18 School year was 357 full-time equivalent (FTE) students. Enrollment projected for the 2018-19 School year is 359 FTE students, which is lower than the maximum enrollment allowed by the School's contract with the District, which provides funding of \$8,046 per student in 2018-19, compared to \$7,572 in 2017-18. Additionally, the School receives override and categorical revenue from the District on a per pupil basis. While these revenue sources remain relatively flat, for the ninth consecutive year the Colorado State Legislature continued to lower the statewide total funding by applying a budget stabilization factor (negative factor, previously) to reduce total program funding received. The School may need to seek other local sources to balance its budget.

Requests for Information

The financial report is designed to provide a general overview of the School's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Summit Middle Charter School
4655 Hanover Ave.
Boulder, CO 80305

BASIC FINANCIAL STATEMENTS

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Summit Middle Charter School
STATEMENT OF NET POSITION
June 30, 2018

	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT SUPPORTERS OF SUMMIT
ASSETS		
Cash and Investments	\$ 1,476,348	\$ 318,530
Prepaid Items	800	-
Capital Assets, Net of Accumulated Depreciation	122,575	-
TOTAL ASSETS	<u>1,599,723</u>	<u>318,530</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Items	3,662,970	-
OPEB Related Items	17,786	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,680,756</u>	<u>-</u>
LIABILITIES		
Accounts Payable	5,635	-
Accrued Compensation and Benefits	177,751	-
Noncurrent Liabilities		
Due Within One Year	80,000	-
Due in More Than One Year	160,000	-
Net Pension Liability	12,154,427	-
Net OPEB Liability	277,556	-
TOTAL LIABILITIES	<u>12,855,369</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Items	497,010	-
OPEB Related Items	4,643	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>501,653</u>	<u>-</u>
NET POSITION		
Investment in Capital Assets	122,575	-
Restricted for Operations and Technology	40,701	-
Restricted for Special Education	60,000	-
Restricted for Emergencies	118,294	-
Restricted for Donations	27,907	-
Unrestricted	(8,446,020)	318,530
TOTAL NET POSITION	<u>\$ (8,076,543)</u>	<u>\$ 318,530</u>

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

Summit Middle Charter School
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 3,493,774	\$ 80,771	\$ 29,181	\$ 46,951
Supporting Services	2,516,838	-	10,972	20,685
Total Governmental Activities	<u>\$ 6,010,612</u>	<u>\$ 80,771</u>	<u>\$ 40,153</u>	<u>\$ 67,636</u>
COMPONENT UNIT				
Supporters of Summit	<u>\$ 36,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES

Per Pupil Revenue
District Mill Levy
Grants and Contributions not
Restricted to Specific Programs
Investment Income

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION, Beginning, as Restated

NET POSITION, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
COMPONENT UNIT	
GOVERNMENTAL ACTIVITIES	SUPPORTERS OF SUMMIT
\$ (3,336,871)	\$ -
<u>(2,485,181)</u>	<u>-</u>
(5,822,052)	-
-	<u>(36,836)</u>
2,717,797	-
1,040,062	-
13,432	117,367
<u>-</u>	<u>1,197</u>
<u>3,771,291</u>	<u>118,564</u>
(2,050,761)	81,728
<u>(6,025,782)</u>	<u>236,802</u>
<u>\$ (8,076,543)</u>	<u>\$ 318,530</u>

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

Summit Middle Charter School
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>GENERAL</u>	<u>NONMAJOR GOVERNMENTAL FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Investments	\$ 1,429,271	\$ 47,077	\$ 1,476,348
Prepaid Items	800	-	800
TOTAL ASSETS	<u>\$ 1,430,071</u>	<u>\$ 47,077</u>	<u>\$ 1,477,148</u>
LIABILITIES			
Accounts Payable	\$ 5,635	\$ -	\$ 5,635
Accrued Compensation and Benefits	177,751	-	177,751
TOTAL LIABILITIES	<u>183,386</u>	<u>-</u>	<u>183,386</u>
FUND BALANCES			
Nonspendable for Prepaid Items	800	-	800
Restricted for Operations and Technology	-	40,701	40,701
Restricted for Special Education	60,000	-	60,000
Restricted for Emergencies	111,918	6,376	118,294
Restricted for Donations	27,907	-	27,907
Unassigned	1,046,060	-	1,046,060
TOTAL FUND BALANCES	<u>1,246,685</u>	<u>47,077</u>	<u>1,293,762</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,430,071</u>	<u>\$ 47,077</u>	<u>\$ 1,477,148</u>

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

Total Fund Balances of Governmental Funds	\$ 1,293,762
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	122,575
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	(240,000)
Net pension (\$12,154,427) and net OPEB (\$277,556) liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds.	(12,431,983)
Deferred outflows of resources related to pensions \$3,662,970 and OPEB \$17,786 used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	3,680,756
Deferred inflows of resources related to pensions (\$497,010) and OPEB (\$4,643) used in governmental activities are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(501,653)</u>
Total Net Position of Governmental Activities	<u>\$ (8,076,543)</u>

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

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

	<u>GENERAL</u>	<u>NONMAJOR GOVERNMENTAL FUND</u>	<u>TOTAL</u>
REVENUES			
Local Sources	\$ 3,671,187	\$ 212,532	\$ 3,883,719
State Sources	76,132	-	76,132
TOTAL REVENUES	<u>3,747,319</u>	<u>212,532</u>	<u>3,959,851</u>
EXPENDITURES			
Current			
Instruction	2,155,324	-	2,155,324
Supporting Services	1,333,468	189,571	1,523,039
Debt Service - Principal	80,000	-	80,000
TOTAL EXPENDITURES	<u>3,568,792</u>	<u>189,571</u>	<u>3,758,363</u>
NET CHANGE IN FUND BALANCES	178,527	22,961	201,488
FUND BALANCES, Beginning	<u>1,068,158</u>	<u>24,116</u>	<u>1,092,274</u>
FUND BALANCES, Ending	<u>\$ 1,246,685</u>	<u>\$ 47,077</u>	<u>\$ 1,293,762</u>

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

Net Change in Fund Balances of Governmental Funds	\$ 201,488
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which capital outlay \$50,985 exceeded depreciation expense (\$5,928) in the current year.	45,057
Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	80,000
Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of pension expense (\$2,372,592) and OPEB expense (\$4,714) not reported in the governmental funds.	<u>(2,377,306)</u>
Change in Net Position of Governmental Activities	<u>\$ (2,050,761)</u>

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Summit Middle Charter School (the "School") was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Boulder Valley School District RE-2 (the "District"). The School began operations in the fall of 1996.

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. Following is a summary of the more significant policies.

Reporting Entity

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

The School includes *Supporters of Summit, Inc.*, within its reporting entity. This is a non-profit organization formed to bring together the School's parents and staff, as well as the community at large, in support of the School; and to organize activities in support of the School, such as fundraising, grant writing, and technological assistance. Supporters of Summit, Inc., is discretely presented in the School's financial statements. Separate financial statements are not issued.

The School is a component unit of the District. The District granted the School's charter and the majority of the School's funding is provided by the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in a single column. The primary government is reported separately from the legally separate component unit for which the School is financially accountable.

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 revenues not properly included among program revenues are reported instead as *general revenues*.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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 and within 90 days of the end of the current year for grants. Intergovernmental revenues, grants, and interest associated with the current year are 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 a specific use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

The School reports the following major governmental fund:

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

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - Investments are reported at fair value.

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

Capital Assets - Capital assets, which include modular buildings, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more 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 acquisition price at the date of donation.

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	20-50 years
Equipment	5-20 years

Deferred Outflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School reports certain items in this category related to its defined benefit pension and OPEB plans (see Notes 5 and 6).

Accrued Compensation and Benefits - Salaries of certain 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 financial statements.

Compensated Absences - The School's policy allows accumulation of annual leave to a maximum of 160 hours for certain personnel classifications with a payout rate of \$12.60 per hour. A liability for the accrued compensated absences would be reported in the government-wide financial statements. However, no liability has been reported because the amount is insignificant.

Long-Term Debt - In the government-wide financial statements, long-term debt is reported as a liability. Debt premiums, discounts and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Net Pension Liability - The School reports a net pension liability for its proportionate share of PERA's unfunded pension liability. See Note 5 for additional information.

Net OPEB Liability - The School reports a net OPEB liability for its proportionate share of PERA's unfunded OPEB liability. See Note 6 for additional information.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School reports certain items in this category related to its defined benefit pension and OPEB plans (see Notes 5 and 6).

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. Amounts that are not in a spendable form or are either legally or contractually required to be maintained intact are reported as nonspendable fund balance. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balance to a specific purpose through an informal action. The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned and unassigned balances.

Fund Balance Policy - The School's policy is to maintain a minimum fund balance reserve equal to 10% of the annual operating expenditures budgeted for the fiscal year.

District Purchased Services

The District provides certain maintenance, insurance, administrative and other services to the School. Total current year costs charged to the School were \$831,736.

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 participates in the District's risk management programs for these risks of loss. Settled claims have not exceeded coverage limits in the last three years.

NOTE 2: CASH AND INVESTMENTS

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

Deposits	\$ 9,435
Cash Held by the District	<u>1,466,913</u>
Total	<u>\$ 1,476,348</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local government may invest, which include the following. State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. State statutes generally do not address custodial risk.

- 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

The School had no investments at June 30, 2018.

Component Unit

Supporters of Summit, Inc., is a non-profit entity with its own investment policy and is not subject to State statutes. Cash and investments at June 30, 2018, consisted of the following.

Deposits	\$ 181,231
Investments	<u>137,129</u>
Total	<u><u>\$ 318,360</u></u>

At June 30, 2018, Supporters of Summit, Inc., had \$137,129 invested in the Charles Schwab Money Market Fund. The investments are valued at amortized cost and are not rated.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3: CAPITAL ASSETS

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

	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
Governmental Activities				
Capital Assets, Being Depreciated				
Building and Improvements	\$ 78,194	\$ 38,335	\$ -	\$ 116,529
Equipment	-	12,650	-	12,650
Total Capital Assets, Being Depreciated	<u>78,194</u>	<u>50,985</u>	<u>-</u>	<u>129,179</u>
Less Accumulated Depreciation For				
Building and Improvements	676	5,507	-	6,183
Equipment	-	421	-	421
Total Accumulated Depreciation	<u>676</u>	<u>5,928</u>	<u>-</u>	<u>6,604</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,518</u>	<u>\$ 45,057</u>	<u>\$ -</u>	<u>\$ 122,575</u>

Depreciation expense was charged to the instruction program of the School.

NOTE 4: LONG-TERM DEBT

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

	Balance 6/30/17	Additions	Payments	Balance 6/30/18	Due Within One Year
Loan Payable	<u>\$ 320,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 240,000</u>	<u>\$ 80,000</u>

The School's building is owned by the District. In 2016, the District commenced a capital construction project to improve the School's building. The initial project budget was \$9,910,000. During the fiscal year ended June 30, 2016 the School contributed \$642,000 and Supporters of Summit, Inc. contributed \$658,000 to the District to enhance the scope of the project and increase the project budget to \$11,210,000. In addition, and consistent with the School's most recent charter contract with the District, the School contributed an additional \$400,000 to the District to complete the project during the fiscal year ended June 30, 2017. The contribution was made in the form of a loan from the District. The loan payable bears no interest and requires minimum annual payments of \$80,000, beginning in the fiscal year ended June 30, 2017. The loan matures June 30, 2021.

Annual debt service requirements to maturity are as follows:

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4: LONG-TERM DEBT (Continued)

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 80,000	\$ -	\$ 80,000
2020	80,000	-	80,000
2021	80,000	-	80,000
Total	<u>\$ 240,000</u>	<u>\$ -</u>	<u>\$ 240,000</u>

NOTE 5: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

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

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

General Information about the Pension Plan

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

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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

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

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

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

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

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

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

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended	
	<u>12/31/2017</u>	<u>12/31/2018</u>
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	<u>5.00%</u>	<u>5.50%</u>
Total Employer Contribution Rate to the SCHDTF ¹	18.63%	19.13%

¹Rates 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 \$339,406 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 \$12,154,427 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The School's proportion of the net pension liability was based on 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 0.03758739 percent, which was an increase of 0.00116375 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized pension expense of \$2,388,980. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 223,469	\$ -
Changes of assumptions or other inputs	3,103,477	19,694
Net difference between projected and actual earnings on pension plan investments	-	477,316
Changes in proportion and differences between contributions recognized and proportionate share of contributions	164,456	-
Contributions subsequent to the measurement date	171,568	-
Total	\$ 3,662,970	\$ 497,010

\$171,568 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	\$ 1,992,255
2020	1,145,314
2021	36,391
2022	(179,568)
2023	-
Thereafter	-

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

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

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

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.

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:

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<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 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- 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.
- 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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$ 15,353,108	\$ 12,154,427	\$ 9,547,867

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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

At June 30, 2018, the School reported a liability of \$12,154,427 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%	\$5,491,265

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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 \$5,673,762 of the estimated \$6,663,162 reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

Summary of Significant Accounting Policies

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

General Information about the OPEB Plan

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

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

General Information about the OPEB Plan (Continued)

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure 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 \$18,347 for the year ended June 30, 2018.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: 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 \$277,556 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 the School's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the School's proportion was 0.02135703 percent, which was an increase of 0.00065338 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$5,377. 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	\$ 1,313	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	4,643
Changes in proportion and differences between contributions recognized and proportionate share of contributions	7,080	-
Contributions subsequent to the measurement date	9,393	-
Total	<u>\$ 17,786</u>	<u>\$ 4,643</u>

\$9,393 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	\$ 488
2020	488
2021	488
2022	488
2023	1,649
Thereafter	149

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:

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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

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

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.

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

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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

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

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

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

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

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

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

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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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

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

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

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

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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$269,919	\$277,556	\$286,754

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:

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$312,060	\$277,556	\$248,106

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.

Summit Middle Charter School
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed Article X, Section 20 (the "Amendment") to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The School believes it is in compliance with the Amendment. The Amendment requires all governments to establish a reserve for emergencies, representing 3% of fiscal year spending. At June 30, 2018, the emergency reserve of \$118,294 was reported as restricted fund balance and net position.

NOTE 8: RESTATEMENT OF NET POSITION

For the year ended June 30, 2018, the School adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB No. 75)* effective for financial statements for periods beginning after June 15, 2017. GASB No. 75 revises and establishes new financial reporting requirements for most governments that provide their employees with postemployment benefits other than pensions (OPEB). GASB No. 75 requires cost-sharing employers participating in the PERA program to record their proportionate share, as defined in GASB No. 75, of PERA's net OPEB liability.

For the School, the effect of implementing this standard was to change how it accounts and reports the net OPEB liability. Implementation of the standard resulted in a restatement of the prior period net position as shown below.

	Governmental Activities
Net Position, June 30, 2017, as Previously Reported	\$ (5,766,083)
Cumulative Effect of Application of GASB No. 75, Net OPEB Liability	(259,699)
Net Position, June 30, 2017, as Restated	\$ (6,025,782)

REQUIRED SUPPLEMENTARY INFORMATION

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Summit Middle Charter School
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,681,748	\$ 2,717,460	\$ 2,717,797	\$ 337
District Mill Levy	824,752	827,530	827,530	-
Student Fees	118,220	125,640	80,771	(44,869)
Contributions	42,000	53,883	45,089	(8,794)
State Sources				
Capital Construction	47,651	45,339	46,951	1,612
Grants	27,602	28,871	29,181	310
TOTAL REVENUES	3,741,973	3,798,723	3,747,319	(51,404)
EXPENDITURES				
Instruction and Special Instruction	2,393,958	2,391,837	2,155,324	236,513
Student Support Services	118,036	117,970	120,135	(2,165)
Instructional Staff Support Services	33,013	84,687	78,972	5,715
General Administration	95,597	127,641	135,637	(7,996)
School Administration	568,141	559,213	550,027	9,186
Business Services	41,051	49,811	49,811	-
Operations and Maintenance	286,697	327,235	309,901	17,334
Central Services	100,180	91,980	88,985	2,995
Debt Service - Principal	80,000	80,000	80,000	-
Reserves	531,160	1,036,507	-	1,036,507
TOTAL EXPENDITURES	4,247,833	4,866,881	3,568,792	1,298,089
NET CHANGE IN FUND BALANCE	(505,860)	(1,068,158)	178,527	1,246,685
FUND BALANCE, Beginning	824,425	1,068,158	1,068,158	-
FUND BALANCE, Ending	\$ 318,565	\$ -	\$ 1,246,685	\$ 1,246,685

Summit Middle Charter School
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION AND OTHER POST EMPLOYMENT BENEFIT LIABILITIES
June 30, 2018

As of December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Pension Liability			
School's proportion (percentage) of the collective net pension liability (asset)	0.03758739%	0.03642364%	0.03666203%
School's proportionate share of the collective pension liability (asset)	12,154,427	10,844,725	5,607,198
Covered payroll	1,733,863	1,634,760	1,597,739
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701.00%	663.38%	350.95%
Plan fiduciary net pension as a percentage of the total pension liability	43.96%	43.10%	59.20%
Net Other Post Employment Benefit (OPEB) Liability			
School's proportion (percentage) of the collective net OPEB liability (asset)	0.02135703%	0.02070365%	
School's proportionate share of the collective OPEB liability (asset)	277,556	268,430	
Covered payroll	1,733,863	1,634,760	
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.01%	16.42%	
Plan fiduciary net pension as a percentage of the total OPEB liability	17.53%	16.72%	

* The amounts presented for each fiscal year were determined as of December 31 based on the measurement date of the Plan. This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

<u>2014</u>	<u>2013</u>
0.03556924%	0.03331072%
4,820,827	4,197,248
1,490,094	1,326,576
323.52%	316.40%
62.80%	64.06%

Summit Middle Charter School
SCHEDULE OF THE CONTRIBUTIONS AND RELATED RATIOS
June 30, 2018

As of June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>
Defined Benefit Pension Plan			
Statutorily required contributions	\$ 339,406	\$ 301,733	\$ 292,546
Contributions in relation to the statutorily required contribution	<u>339,406</u>	<u>301,733</u>	<u>292,546</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	1,798,747	1,641,639	1,650,008
Contribution as a percentage of covered payroll	18.87%	18.38%	17.73%
Defined Benefit Other Post Employment Benefit Plan			
Statutorily required contributions	\$ 18,347	\$ 16,745	\$ 16,830
Contributions in relation to the statutorily required contribution	<u>18,347</u>	<u>16,745</u>	<u>16,830</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	1,798,747	1,641,639	1,650,008
Contribution as a percentage of covered payroll	1.02%	1.02%	1.02%

* The amounts presented for each fiscal year were determined as of June 30. This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

<u>2015</u>	<u>2014</u>
\$ 265,313	\$ 223,256
<u>265,313</u>	<u>223,256</u>
<u>\$ -</u>	<u>\$ -</u>
1,571,759	1,397,096
16.88%	15.98%
\$ 16,032	\$ 14,250
<u>16,032</u>	<u>14,250</u>
<u>\$ -</u>	<u>\$ -</u>
1,571,759	1,397,096
1.02%	1.02%

Summit Middle Charter School
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The budgets are adopted for the School on a basis consistent with generally accepted accounting principles (GAAP).

The School adheres to the following procedures in establishing the budgetary information reflected in the financial statements:

- By June 30, management submits to the Board of Directors proposed budgets for the fiscal year commencing the following July 1. The budgets include proposed expenditures and the means of financing them.
- Prior to June 30, the budgets are adopted by the Board of Directors.
- Expenditures may not legally exceed budget 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 fiscal year end.

NONMAJOR GOVERNMENTAL FUND

Special Revenue Fund

Operations and Technology Fund - This fund accounts for revenues and expenditures related to an operations and technology mill levy approved by voters November 2016.

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Summit Middle Charter School
BUDGETARY COMPARISON SCHEDULE
OPERATIONS AND TECHNOLOGY FUND
Year Ended June 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE TO FINAL Positive (Negative)
REVENUES				
District Mill levy	\$ 178,026	\$ 212,532	\$ 212,532	\$ -
TOTAL REVENUES	<u>178,026</u>	<u>212,532</u>	<u>212,532</u>	<u>-</u>
EXPENDITURES				
Supporting Services	154,382	193,788	189,571	4,217
Reserves	5,341	6,376	-	6,376
TOTAL EXPENDITURES	<u>159,723</u>	<u>200,164</u>	<u>189,571</u>	<u>10,593</u>
NET CHANGE IN FUND BALANCE	18,303	12,368	22,961	10,593
FUND BALANCE, Beginning	<u>33,580</u>	<u>24,116</u>	<u>24,116</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 51,883</u>	<u>\$ 36,484</u>	<u>\$ 47,077</u>	<u>\$ 10,593</u>

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