



**Community Challenge School**

**Financial Statements**

**June 30, 2018**



Certified Public Accountant

**Roy Willis Gentry, Inc.**

**Community Challenge School**

**Roster of School Officials**

**June 30, 2018**

**School Board Members**

President	Ramon Bargas
Vice President	Daniel Dulaney
Secretary	William F Robinson III
Member	Larry Gile
Member	Jutta Gebauer
Member	Dr. Luis Torres, Ph.D.

**School Management**

Eloy Chavez, Executive Director

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ROY WILLIS GENTRY, INC.  
Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Community Challenge School  
Denver, Colorado

I have audited the accompanying financial statements of the governmental activities and each major fund of the Community Challenge School, component unit of the Denver School District, as of and for the year ended June 30, 2018, which collectively comprise the basic financial statements of the school, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of its financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Community Challenge School, as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Audit Standards Board, who considers it to be an essential part of financial reporting placing the basic financial statements in appropriate operational, economic, or historical context. I have applied certain limited procedures to the 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 because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Roy Willis Gentry, CPA, Chcr.*

**Roy Willis Gentry, CPA  
September 12, 2018**



## **Management's Discussion and Analysis**

As management of the Community Challenge Charter School, we offer readers of the Community Challenge School's financial statements, this narrative overview, and analysis of the financial activities of the Community Challenge Charter School, for fiscal year ending June 30, 2018.

### **Highlights**

Community Challenge School (CCS) – **A Collaborative Community-Based School for “High Risk” Youth and their Families** finished its eighteenth year of operation in 2017-18. CCS has undergone a governmental audit each of these years and has received positive audits for each year of its operations. All of the CCS financial audit reports demonstrate that the school's financial statements, practices and procedures ended in conformity with accounting principles generally accepted in the United States of America. CCS has also used the chart of accounts system required by the Colorado Department of Education (CDE). This audit reflects the final year of CCS's operations. Due to demographic changes in the neighborhood it has principally served and the perceived policy direction of CCS's charter-school authorizer, Denver Public Schools (DPS), CCS elected to cease school operations effective the end of the 2017-18 school year. This audit thus reflects one of the required and appropriate wind-up obligations of the School.

The net position of the Community Challenge School at the end of all 2017-18 was \$188,235. Cash on hand after the conclusion of all needed wind-up activities following the close of school operations will be transferred to Denver Public Schools.

### **Economic Factors**

CCS successfully completed 18 years of operation in an exceptionally challenging educational and regulatory environment. Many CCS graduates successfully transitioned into mainstream schools and went on to post-secondary education or gainful employment. CCS's model of developing student pro-social skills in an academic setting to enable those students to participate more effectively in conventional academic instruction remains an important and viable method for dealing with many students who have fallen badly behind in regular academic settings. During 2017-18 CCS worked with families and students to secure structured transitions of its core student population to other appropriate and available programs. CCS has also transferred or otherwise liquidated its instructional assets, providing many of these to other schools or transferring them to DPS. The balance remaining in CCS accounts will allow professional and appropriate wind-up of all reporting and related activities, including this audit, with a remaining cash balance to be transferred to DPS at corporate dissolution.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Community Challenge School's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

# Management's Discussion and Analysis

## Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Community Challenge School's finances, similar to a private-sector business.

The statement of net position presents information showing how the School's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows. Furthermore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements can be found on pages 3 and 4 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Community Challenge, as with other charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Community Challenge School are governmental funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating Community Challenge School's near-term financing requirements.

Because the focus of governmental funds is narrower than of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the governmental-wide financial statements. By doing so, readers may better understand the long-term impact of Community Challenge School's near term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Community Challenge School maintains a General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund.

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

## Management's Discussion and Analysis

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's position. In the case of Community Challenge School, assets exceeded liabilities by \$188,235 at the close of the fiscal year.

**Governmental Activities.** For the year ended June 30, 2018 governmental activities decreased Community Challenge School's net assets by \$301,662.

<b>Change in Net Position</b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Program Revenues		
Operating Grants and Contributions	\$ 183,942	\$ 137,769
General Revenues		
Per Pupil Revenue	1,417,943	1,183,704
Mill Levy	571,345	510,111
Capital Construction Funding	47,215	42,759
Investment Earnings	101	113
Other	<u>19,860</u>	<u>901</u>
Total Revenues	2,240,406	1,875,357
Expenses		
Instruction	595,498	575,477
Support	<u>1,946,570</u>	<u>1,280,941</u>
Total Expenses	2,542,068	1,856,418
Increase*(Decrease) In Net Position	(301,662)	18,939
Net Position, Beginning of year	489,897	470,958
Net Position, End of year	188,235	489,897

**Following is a summary of the School's net position, liabilities and fund balances at June 30, 2018 and 2017.**

#### ***Net Position***

Assets		
Current and other assets	<u>\$ 237,808</u>	<u>\$ 515,454</u>
Total Assets	237,808	515,454
Current Liabilities	49,574	25,557
Net Position		
Restricted for Emergencies	176,223	176,223
Restricted for Emergencies - TABOR	-	5,792
Reserved for Emergencies - TABOR	-	38,943
Restricted Fund	33,067	45,138
Unrestricted Fund	<u>(21,055)</u>	<u>223,801</u>
Total Net Position	188,235	489,897

## Management's Discussion and Analysis

### Financial Analysis of the School's Funds

**Governmental Funds.** The focus of Community Challenge School's governmental funds 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, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year Community Challenge School's governmental funds reported a combined ending fund balance of \$188,235.

Community Challenge experienced a positive budget year in 2017 – 2018. CCS generated approximately \$183,942 in grant funding, and its enrollment increased from the previous year of 154 students to 179 students. CCS increased its PPF revenue by \$234,239 for the 2017 – 2018 fiscal year. CCS ended the school year debt free with a fund balance of \$188,235.

Denver Public Schools was the major funding source of Community Challenge School.

### General Fund Budgetary Highlights

CCS received anticipated Mill Levy grant funds for the 2017 – 2018 school year. Moreover, the school received an additional \$234,239 in PPF revenue. 2017 – 2018 was a positive budget year for CCS; the school ended the year with a positive revenue balance.

### Capital Asset Debt Administration:

Community Challenge School had no investment in capital assets as of June 30, 2018.

### Request for Information

This financial report is designed to provide a general overview of Community Challenge School's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Eloy Chavez, Executive Director, 948 Santa Fe Drive, Denver, Colorado 80204.

**BASIC FINANCIAL STATEMENTS**

COMMUNITY CHALLENGE SCHOOL

STATEMENT OF NET POSITION

June 30, 2018

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash	\$ 232,931
Cash-TABOR Reserve	-
Accounts Receivable	4,877
Deferred Outflows Related to Pension	560,385
Deferred Outflows Related to OPEB	6,652
<b>TOTAL ASSETS</b>	<u>804,845</u>
<b>LIABILITIES</b>	
Accrued Payroll Liabilities	49,574
Net Pension Liability (Long-Term)	1,388,411
Net OPEB Liability (Long-Term)	78,709
Net OPEB Liability (Prior period)	-
Deferred Inflows Related to Pension	340,750
Deferred Inflows Related to OPEB	2,457
<b>TOTAL LIABILITIES</b>	<u>1,859,901</u>
<b>NET POSITION</b>	
Restricted for Emergencies	176,223
Restricted Fund	33,067
Unrestricted Fund	<u>(1,264,346)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (1,055,056)</u>

The accompanying notes are an integral part of the financial statements



COMMUNITY CHALLENGE SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2018

	<u>GENERAL</u>
ASSETS	
Cash	\$ 232,931
Cash-TABOR Reserve	-
Accounts Receivable	<u>4,877</u>
TOTAL ASSETS	<u>237,808</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accrued Payroll Liabilities	<u>49,574</u>
TOTAL LIABILITIES	<u>49,574</u>
FUND BALANCES	
Restricted for Emergencies	176,223
Restricted, Reported in General Fund	33,067
Unrestricted, Reported in General Fund	<u>(21,055)</u>
TOTAL FUND BALANCES	<u>188,235</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 237,808</u>

Note:

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the Statement of Net Position are different because:

Some liabilities, including net pension and OPEB obligations are not due and payable in its current period and, therefore, are not reported in the funds.

Governmental Fund Balance	<u>\$ 188,235</u>
Deferred Outflows Related to Pensions	560,385
Deferred Inflows Related to Pensions	(340,750)
Deferred Outflows Related to OPEB	6,652
Deferred Inflows Related to OPEB	(2,457)
Net Pension Liability	(1,388,411)
Net OPEB Liability	<u>(78,709)</u>
Net Pension and OPEB Inflows, Outflows & Expenses not reported in Governmental Funds	<u>(1,243,291)</u>
Statement of Net Position	<u>\$ (1,055,056)</u>

COMMUNITY CHALLENGE SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
June 30, 2018

	GENERAL
REVENUES	
Local Sources	\$ 593,043
State Sources	1,560,537
Federal Sources	86,826
TOTAL REVENUES	2,240,406
EXPENDITURES	
Instruction	595,498
Supporting Services	1,946,570
TOTAL EXPENDITURES	2,542,068
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(301,662)
OTHER FINANCING SOURCES (USES)	-
NET CHANGE IN FUND BALANCES	(301,662)
FUND BALANCES, Beginning	489,897
FUND BALANCES, Ending	\$ 188,235

The accompanying notes are an integral part of the financial statements

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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

The Community Challenge School was formed in July 2000 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver School District.

The accounting policies of Charter Community Challenge School (the "School") conform to generally accepted accounting principles applicable to governmental units. Following is a summary of the more significant policies.

**Reporting Entity**

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

Based on the application of these criteria, the School does not include additional organizations within its reporting entity. The School is a component unit of the Denver School District (the "District"). 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 assets and the statement of activities) report on information on all activities of the School. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

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

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

Governmental Fund financial statements are reported using current financial resources measurement focus and modified accrual basis accounting. Revenues are recognized as soon as they are both measurable and available. Available means collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

The School reports the following major governmental fund:

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

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

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Net Position/Fund Balance – In the government-wide financial statements, net assets are restricted when constraints placed on the net position are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries Commercial insurance for these risks of loss.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 2: CASH AND INVESTMENTS**

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local Government deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2018, the School had bank deposits of \$232,892 held by financial institutions that were eligible public depositories. These deposits are collateralized.

**Investments**

The School is required to comply with State statutes which specify investments meeting defined rating, maturity, custodial and concentration of risk criteria in which local governments may invest, which include:

- Obligation 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
- Banker's 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

At June 30, 2018, the School had no investments.

**NOTE 3: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2018, are summarized below.

	Balances			Balances
	<u>6/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/18</u>
Building Improvements	\$150,361	\$ -	\$ -	\$ 150,361
Machinery and Equipment	<u>45,324</u>	<u>-</u>	<u>-</u>	<u>45,324</u>
Total	195,685	-	-	195,685
Accumulated Depreciation	<u>(195,685)</u>	<u>-</u>	<u>-</u>	<u>(195,685)</u>
Net Capital Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4: OPERATING LEASES**

The School entered into an operating lease with an individual for building space. Lease payments are \$7,000 per month expiring June 30, 2019. The lease can be terminated by the lessee any time after July 1, 2014, by giving the landlord 90 days written notice. The lessee has given the landlord 90 days written notice and the lease was terminated July 31, 2018. Lease expense for the year ended June 30, 2018 was \$84,000.

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

Pensions: Community Challenge School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-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 DPS Division 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 DPS Division for financial reporting purposes be measured using the plan provisions in effect as of the DPS Division'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 Community Challenge School are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division) – a single-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5: DEFINED BENEFIT PENSION PLAN – Description (Continued)**

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

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.

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

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, the 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 Community Challenge School are required to contribute to the DPS Division 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:

<b>January 1<sup>st</sup> through December 31<sup>st</sup></b>	<b>2017</b>	<b>2018</b>
Employer Contribution Rate <sup>1</sup>	10.15%	10.15%
Amount of Employer Contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f) <sup>1</sup>	(1.02)%	(1.02)%
PCOP Offset as specified in C.R.S. § 24-51-412 <sup>1</sup>	(14.56%)	(14.18%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	5.00%	5.50%
<b>Total Employer Contribution Rate to the DPS Division<sup>1</sup></b>	<b>4.07%</b>	<b>4.95%</b>

<sup>1</sup>Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5: DEFINED BENEFIT PENSION PLAN – Description (Continued)**

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member, and the Community Challenge School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from Community Challenge School were \$42,723.74 for the year ended June 30, 2018.

**NOTE 6: PENSION LIABILITIES, PENSION EXPENSE, & DEFERRED OUTFLOWS OF RESOURCES & DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At June 30, 2018, the Community Challenge School reported a liability of \$1,388,411 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The Community Challenge School's proportion of the net pension liability was based on Community Challenge School's contributions to the DPS Division for the calendar year 2017 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2017, the Community Challenge School's proportion was 0.1548 percent, which was an increase of 0.0029 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Community Challenge School recognized pension expense of \$210,055. At June 30, 2018, the Community Challenge School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$85,013	\$2,557
Changes of assumptions or other inputs	\$180,906	\$70,690
Net difference between projected and actual earnings on pension plan investments	\$-0-	\$267,503
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$268,868	\$0
Contributions subsequent to the measurement date	\$25, 598	N/A
Total	\$560,385	\$340,750

\$25,598 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	\$ 43,604
2020	\$ 43,604
2021	\$ 43,604
2022	\$ 43,604
Thereafter	\$ 19,621

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**NOTE 7: ACTUARIAL ASSUMPTIONS**

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

Actuarial cost method	Entry Age
Price inflation	2.40 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	7.25 percent
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA DPS Benefit Structure hired after 12/31/06 (Ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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 DPS Division, 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.

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**NOTE 7: ACTUARIAL ASSUMPTIONS – 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	<b>100.00%</b>	

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

**NOTE 8: DISCOUNT RATE**

The discount rate used to measure the total pension 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:

- 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 and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

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**NOTE 8: DISCOUNT RATE – 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 DPS Division’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

**NOTE 9: SENSITIVITY OF THE COMMUNITY CHALLENGE 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 7.25 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 (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 pension liability	\$2,184,848	\$1,388,411	\$729,203

**NOTE 10: PENSION PLAN FIDUCIARY NET POSITION**

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

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees’ Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by

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**NOTE 10: PENSION PLAN FIDUCIARY NET POSITION – Continued**

PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the DPS Division based on the proportionate amount of annual payroll of the DPS Division 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 Community Challenge School reported a liability of \$ 1,388,411 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 7.25%. For comparative purposes, the following schedule presents an estimate of what the Community Challenge School’s proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the DPS Division, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the DPS Division as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 1,005,906

**NOTE 11: DEFINED CONTRIBUTION PENSION PLAN**

Voluntary Investment Program

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

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**NOTE 11: DEFINED CONTRIBUTION PENSION PLAN – Continued**

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. In addition, the Community Challenge School has agreed to match employee contributions up to 8 percent of covered salary as determined by the Internal Revenue Service. Employees are immediately vested in their own contributions, employer contributions, and investment earnings. For the year ended June 30, 2018, program members contributed \$0, and Community Challenge School recognized pension expense and a liability of \$0 and \$0, respectively, for the Voluntary Investment Program.

**NOTE 12: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFITS**

**Summary of Significant Accounting Policies**

OPEB. The Community Challenge School participates in the Denver Public Schools Health Care Trust Fund (DPS HCTF), a single-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 DPS 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 COMMUNITY CHALLENGE SCHOOL are provided with OPEB through the DPS HCTF—a single-employer defined benefit OPEB plan administered by PERA. The DPS HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

Benefits provided. The DPS 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 Health Care Trust Fund (HCTF) and the DPS HCTF. The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account

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balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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

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

PERA Benefit Structure

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

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

DPS Benefit Structure

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

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced

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appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the DPS HCTF. PERA reporting agencies of the DPS Division are required to contribute at a rate of 1.02 percent of PERA-includable salary into the DPS HCTF.

Employer contributions are recognized by the DPS HCTF in the period in which the compensation becomes payable to the member and the COMMUNITY CHALLENGE SCHOOL is statutorily committed to pay the contributions. Employer contributions recognized by the DPS HCTF from COMMUNITY CHALLENGE SCHOOL were \$10,707 for the year ended December 31, 2017

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

At June 30, 2018, the COMMUNITY CHALLENGE SCHOOL reported a liability of \$78,091 for its proportionate share of the net OPEB liability. The net OPEB liability for the DPS 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 COMMUNITY CHALLENGE SCHOOL proportion of the net OPEB liability was based on COMMUNITY CHALLENGE SCHOOL contributions to the DPS HCTF for the calendar year 2017 relative to the total contributions of participating employers to the DPS HCTF.

At December 31, 2017, the COMMUNITY CHALLENGE SCHOOL proportion was 0.1544 percent, which was an increase of 0.0026 percent from its proportion measured as of December 31, 2016.

For the year ended December 31, 2017, the COMMUNITY CHALLENGE SCHOOL recognized OPEB expense of \$7,680. At June 30, 2018, the COMMUNITY CHALLENGE SCHOOL reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	-	46
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	2,411
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1230	-

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Contributions subsequent to the measurement date	\$5,421	N/A
Total	\$6,651	

\$5,421 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	(276)
2020	(276)
2021	(276)
2022	(276)
2023	(123)
Thereafter	0

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

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

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

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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:

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

Mortality assumptions for the determination of the total pension liability for the DPS Division as shown below are applied, as applicable, in the determination of the total OPEB liability for the DPS HCTF. Affiliated employers of the DPS Division participate in the DPS 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 DPS Division 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.

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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 DPS HCTF:

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

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

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

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

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

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

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

*Sensitivity of the COMMUNITY CHALLENGE SCHOOL 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%
re Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

Net OPEB Liability	\$78,613	\$78,708	\$78,837
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*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

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

Based on the above assumptions and methods, the projection test indicates the DPS 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 COMMUNITY CHALLENGE SCHOOL 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	\$89,697	\$78,708	\$69,316

COMMUNITY CHALLENGE SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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

**NOTE 13: TAXABLE PENSION CERTIFICATES OF PARTICIPATION (PCOPs)**

The District issued Taxable Pension Certificates of Participation (the PCOPs) on July 19, 1997, to fully fund the unfunded actuarial accrued liability (the UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. For the period from July 1, 2014, to June 30, 2015, the actuarial adjusted rate was 10.80%. This rate is based on actuarially determined contribution requirements, the approval, and recommendation of the Plan Board and approval of the District's Board of Education. The School contributed an average of 9.90% of covered payroll to the District to cover its obligation relating to the PCOPs during the year ended June 30, 2018.

During the years and ended June 30, 2018, 2017, 2016, 2015, 2014, 2013, and 2012, the School made contributions totaling \$118,234, \$103,487, \$104,209, \$117,049, \$121,213, \$123,164, and \$134,713, respectively, to the District towards its PCOPs obligation.

**NOTE 14: COMMITMENTS AND CONTINGENCIES**

Claims and Judgments

The School participated in a number of federal, state and local programs that are fully or partially funded by grants received. If expenditures are disallowed due to noncompliance with grant program regulations, it could have a material effect on the overall financial position of the School.

**NOTE 15: RELATED PARTY**

The School and Adolescent Counseling Exchange (ACE), a Colorado nonprofit organization, shared the same facilities, two staff positions funded by a distinct grant award to ACE and board of directors. A cost allocation plan was in effect.

**NOTE 16: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 12, 2018. There were no subsequent events that require adjustments to or disclosure in the financial statements.

**NOTE 17: RESTATEMENT OF NET POSITION**

The beginning net position of the governmental activities was increased by \$77,534 to \$832,158 as the school implemented Governmental Accounting Standards Board (GASB) Statement 75.

**REQUIRED SUPPLEMENTARY INFORMATION**

COMMUNITY CHALLENGE SCHOOL  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2018

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
<b>REVENUES</b>			
<b>Local Sources</b>			
Mill Levy	\$ 571,345	\$ 571,345	\$ -
Investment Earnings	125	101	(24)
Contributions	2,500	2,438	(62)
Other	19,159	19,159	-
Total Local Sources	<u>593,129</u>	<u>593,043</u>	<u>(86)</u>
<b>State Sources</b>			
Per Pupil Operating Revenue	1,417,943	1,417,943	-
Capital Construction	47,215	47,215	-
DPS At-Risk	81,504	81,504	-
DPS ELPA Funding	13,174	13,174	-
Other (Gifted and Talented)	701	701	-
Total State Sources	<u>1,560,537</u>	<u>1,560,537</u>	<u>-</u>
	269,491.92		
<b>Federal Sources</b>			
Title I	60,568	60,568	-
Title II	5,322	5,322	-
Title III	3,817	3,817	-
Charter Credit	17,119	17,119	-
Total Federal Sources	<u>86,826</u>	<u>86,826</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>2,240,492</u>	<u>2,240,406</u>	<u>(86)</u>
<b>EXPENDITURES</b>			
<b>Instruction</b>			
Salaries	385,000	374,733	(10,267)
Employee Benefits	92,500	89,874	(2,626)
Purchased Services	74,500	71,877	(2,623)
Supplies and Materials	61,500	59,014	(2,486)
Total Instruction	<u>613,500</u>	<u>595,498</u>	<u>(18,002)</u>
<b>Supporting Services</b>			
Salaries	877,000	885,632	8,632
Employee Benefits	660,000	626,446	(33,554)
Purchased Services	433,500	422,003	(11,497)
Supplies and Materials	13,500	12,488	(1,012)
Other	-	-	-
Total Supporting Services	<u>1,984,000</u>	<u>1,946,570</u>	<u>(37,430)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,597,500</u>	<u>2,542,068</u>	<u>(55,432)</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>(357,008)</b>	<b>(301,662)</b>	<b>55,345</b>
<b>OTHER FINANCING USES</b>			
	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(357,008)</b>	<b>(301,662)</b>	<b>55,345</b>
<b>FUND BALANCE, Beginning</b>	<u>474,217</u>	<u>489,897</u>	<u>15,680</u>
<b>FUND BALANCE, Ending</b>	<u>117,209</u>	<u>188,235</u>	<u>71,026</u>

**Community Challenge School**

**Notes to Required Supplementary Information**

**June 30, 2018**

**NOTE 1: Stewardship, Compliance and Accountability**

**Budgets and Budgetary Accounting**

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- Budgets are required by state law for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP), by June 30. By June 30, management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All budgets lapse at year end.
- Prior to June 30, the budget is adopted by the Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

**REQUIRED GASB 68 SUPPLEMENTARY INFORMATION**

ACE COMMUNITY CHALLENGE CHARTER SCHOOL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS  
PUBLIC EMPLOYEE' RETIREMENT ASSOCIATION OF COLORADO  
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND  
June 30, 2018

	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
<b>PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>					
School's Proportion of the Net Pension Liability	0.1548684351%	0.1518555402%	0.1576557246%	0.2008703875%	0.2008194451%
School's Proportionate Share of the Net Pension Liability	\$ 1,388,411	\$ 1,663,535	\$ 1,283,000	\$ 1,254,576	\$ 1,044,470
School's Covered-Employee Payroll	\$ 1,003,407	\$ 1,003,407	\$ 986,514	\$ 1,183,836	\$ 1,092,057
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	138.4%	165.8%	130.1%	106.0%	95.6%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.5%	74.1%	79.0%	83.9%	86.2%
<b>SCHOOL CONTRIBUTIONS</b>					
Statorily Required Contribution	\$ 25,988	\$ 25,988	\$ 13,417	\$ 37,172	\$ 50,599
Contributions in Relation to the Statorily Required Contribution	<u>\$ (25,988)</u>	<u>\$ (25,988)</u>	<u>\$ (13,417)</u>	<u>\$ (37,172)</u>	<u>\$ (50,599)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 1,003,407	\$ 1,003,407	\$ 986,514	\$ 1,183,836	\$ 1,092,057
Contributions as a Percentage of Covered-Employee Payroll	2.59%	2.59%	1.36%	3.14%	4.63%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

**REQUIRED GASB 75 SUPPLEMENTARY INFORMATION**

ACE COMMUNITY CHALLENGE CHARTER SCHOOL  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 AND CONTRIBUTIONS  
 PUBLIC EMPLOYEE' RETIREMENT ASSOCIATION OF COLORADO  
 DENVER PUBLIC SCHOOLS DIVISION HEALTH CARE TRUST FUND  
 June 30, 2018

	<u>12/31/17</u>	<u>12/31/16</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
School's Proportion of the Net opeb Liability	0.1544549063%	0.1518614211%
School's Proportionate Share of the Net OPEB Liability	\$ 78,709	\$ 82,777
School's Covered-Employee Payroll	\$ 1,049,720	\$ 1,003,407
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	7.5%	8.2%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	30.5%	25.2%
	<u>06/30/17</u>	<u>06/30/16</u>
SCHOOL CONTRIBUTIONS		
Statutorily Required Contribution	\$ 10,708	\$ 10,235
Contributions in Relation to the Statutorily Required Contribution	<u>\$ (10,708)</u>	<u>\$ (10,235)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 1,049,720	\$ 1,003,407
Contributions as a Percentage of Covered-Employee Payroll	1.02%	1.02%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.