

**DOWNTOWN DENVER EXPEDITIONARY SCHOOL**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2018**

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Downtown Denver Expeditionary School  
Denver, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Downtown Denver Expeditionary School, component unit of the Denver Public School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

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

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Downtown Denver Expeditionary School, as of and for the year ended June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 37-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*John Luttrell & Associates, LLC*

November 13, 2018

## **Downtown Denver Expeditionary School Management's Discussion and Analysis**

As management of Downtown Denver Expeditionary School (DDES or the School), we offer readers of Downtown Denver Expeditionary School's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018.

### **Financial Highlights**

The year ended June 30, 2018 is the fifth year of operations for DDES. As of June 30, 2018, net position decreased by \$(469,196) to \$(1,309,687). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Numbers 68 and 75. Further information about GASB 68 and 75 is provided in Notes 6 and 7 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$2,845,058. At the close of the fiscal year, Downtown Denver Expeditionary School's governmental fund(s) reported an ending fund balance of \$788,157, an increase of \$56,400 from prior year. This increase is the result of closely monitoring spending throughout the year.

### **Overview of Financial Statements**

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

#### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all the School's assets, liabilities, and deferred inflows and outflows, with the difference 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Denver Public Schools). The governmental activities of the School include instruction and supporting services.

### ***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. The School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The School adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for each governmental fund has been provided herein.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-36.

## Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Downtown Denver Expeditionary School, liabilities exceeded assets resulting in a net position of \$(1,309,687) in FY 2017-2018. Again, this is directly related to the Pension Plan and the Defined Benefit Other Post Employment Benefit (OPEB) liabilities reporting requirements under GASB 68 and 75. Of the School's total net position, \$115,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

### Downtown Denver Expeditionary School's Net Position Governmental Activities

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>ASSETS</b>		
Cash and investments	\$ 927,753	\$ 1,119,517
Accounts Receivable	25,032	5,331
Prepaid Expenses	3,379	41,309
Capital Assets, Net of Accum Depreciation	165,178	152,600
<b>Total Assets</b>	<b>1,121,342</b>	<b>1,318,757</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	1,286,125	1,690,530
Related to OPEB	21,234	-
<b>Total Deferred Outflows of Resources</b>	<b>1,307,359</b>	<b>1,690,530</b>
<b>LIABILITIES</b>		
Accounts Payable	2,167	20,569
Accrued Salaries & Benefits	162,987	116,352
Unearned Revenue	2,853	297,479
Noncurrent Liability – Net Pension Liability	2,738,394	3,074,827
Noncurrent Liability – OPEB	155,078	-
<b>Total Liabilities</b>	<b>3,061,479</b>	<b>3,509,227</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	672,068	198,310
Related to OPEB	4,841	-
<b>Total Deferred Inflows of Resources</b>	<b>676,909</b>	<b>198,310</b>
<b>NET POSITION</b>		
Investment in Capital Assets	165,178	152,600
Restricted for Emergencies	115,000	115,000
Unrestricted	(1,589,865)	(965,850)
<b>Total Net Position</b>	<b>\$ (1,309,687)</b>	<b>\$ (698,250)</b>

The largest portion of the School’s assets is in cash and investments, at 83% of total assets in 2018.

**Downtown Denver Expeditionary School’s Change in Net Position  
Governmental Activities**

	June 30, 2018	June 30, 2017
Program Revenue:		
Charges for Services	\$ 513,511	\$ 523,684
Operating Grants and Contributions	269,407	221,426
Capital Grants and Contributions	50,588	43,362
Total Program Revenue	833,506	788,472
General Revenue:		
Per Pupil Revenue	2,845,058	2,744,240
Mill Levy Revenue	484,478	457,144
Other Income	1,274	101,583
Total General Revenue	3,330,810	3,302,967
<b>Total Revenue</b>	<b>4,164,316</b>	<b>4,091,439</b>
Expenses:		
Current:		
Instruction	2,955,995	2,983,109
Supporting Services	1,677,517	1,408,589
Total Expenses	4,633,512	4,391,698
<b>Increase/(Decrease) in Net Position</b>	(469,196)	(300,259)
<b>Net Position, Beginning*</b>	<b>(840,491)</b>	<b>(397,991)</b>
<b>Net Position, Ending</b>	<b>\$ (1,309,687)</b>	<b>\$ (698,250)</b>

*\*The 2017-2018 beginning net position was decreased by \$142,241 as the School implemented GASB 75.*

The largest portion of the School’s revenues came from per pupil revenue – 68%, respectively in 2018.

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

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$788,157, an increase of \$56,400 from prior year.

### **General Fund Budgetary Highlights**

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the School had some variances between its final budgeted and actual activities. Overall, the School recognized \$(4,337) less revenue than expected and spent \$(60,737) less than planned, when compared to the final budget. One budget amendment was made during FY 2017-2018.

### **Capital Assets & Long-Term Debt**

The School has invested in capital assets for the purchase of buses and facility improvements. Depreciation expenses for capital assets are booked under Supporting Services of the School's operations. See Note 4 for more information.

The School has no long-term debt obligations.

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

The primary factor driving the budget for Downtown Denver Expeditionary School is student enrollment. Enrollment for the 2017-2018 school year was 383.58 funded students. This information was analyzed as part of the 2018-2019 budget which is projecting a 377.50 funded student count.

### **Requests for Information**

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

Downtown Denver Expeditionary School  
1860 Lincoln Street  
Denver, CO 80203

## **BASIC FINANCIAL STATEMENTS**

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2018

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
Cash	\$ 927,753	\$ 1,119,517
Accounts Receivable	25,032	5,331
Prepaid Expenses	3,379	41,309
Capital Assets, Net	165,178	152,600
<b>TOTAL ASSETS</b>	<b>1,121,342</b>	<b>1,318,757</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	1,286,125	1,690,530
Related to OPEB	21,234	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,307,359</b>	<b>1,690,530</b>
<b>LIABILITIES</b>		
Accounts Payable	2,167	20,569
Accrued Salaries and Benefits	162,987	116,352
Unearned Revenue	2,853	297,479
<b>Noncurrent Liabilities</b>		
Pension Liability	2,738,394	3,074,827
OPEB Liability	155,078	-
<b>TOTAL LIABILITIES</b>	<b>3,061,479</b>	<b>3,509,227</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	672,068	198,310
Related to OPEB	4,841	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>676,909</b>	<b>198,310</b>
<b>NET POSITION</b>		
Investment in Capital Assets	165,178	152,600
Restricted for Emergencies	115,000	115,000
Unrestricted	(1,589,865)	(965,850)
<b>TOTAL NET POSITION</b>	<b>\$ (1,309,687)</b>	<b>\$ (698,250)</b>

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2018	2017
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instructional	\$ 2,955,995	\$ 513,511	\$ 16,037	\$ -	\$ (2,426,447)	\$ (2,443,388)
Supporting Services	1,677,517	-	253,370	50,588	(1,373,559)	(1,159,838)
Total Governmental Activities	<u>\$ 4,633,512</u>	<u>\$ 513,511</u>	<u>\$ 269,407</u>	<u>\$ 50,588</u>	(3,800,006)	(3,603,226)
GENERAL REVENUES						
					2,845,058	2,744,240
					484,478	457,144
					1,274	101,583
					<u>3,330,810</u>	<u>3,302,967</u>
					CHANGE IN NET POSITION	(469,196) (300,259)
					NET POSITION, Beginning, As Restated	(840,491) (397,991)
					NET POSITION, Ending	<u>\$ (1,309,687)</u> <u>\$ (698,250)</u>

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	GENERAL FUND	
	2018	2017
<b>ASSETS</b>		
Cash	\$ 927,753	\$ 1,119,517
Accounts Receivable	25,032	5,331
Prepaid Expenses	3,379	41,309
<b>TOTAL ASSETS</b>	<b>\$ 956,164</b>	<b>\$ 1,166,157</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 2,167	\$ 20,569
Accrued Salaries and Benefits	162,987	116,352
Unearned Revenue	2,853	297,479
<b>TOTAL LIABILITIES</b>	<b>168,007</b>	<b>434,400</b>
<b>FUND BALANCES</b>		
Nonspendable	3,379	41,309
Restricted for Grant Expenditures	-	297,479
Restricted for Emergencies	115,000	115,000
Unassigned	669,778	277,969
<b>TOTAL FUND BALANCES</b>	<b>788,157</b>	<b>731,757</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	165,178	152,600
Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability (\$2,738,394), net OPEB liability (\$155,078), deferred outflows related to pensions \$1,286,125, deferred outflows related to OPEB \$21,234, deferred inflows related to pensions (\$672,068), and deferred inflows related to OPEB (\$4,841).	(2,263,022)	(1,582,607)
Net position of governmental activities	<b>\$ (1,309,687)</b>	<b>\$ (698,250)</b>

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

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

	<u>GENERAL FUND</u>	
	<u>2018</u>	<u>2017</u>
REVENUES		
Local Sources	\$ 4,019,388	\$ 3,937,426
State and Federal Sources	144,928	154,013
	<u>4,164,316</u>	<u>4,091,439</u>
EXPENDITURES		
Current		
Instruction	2,521,043	2,544,207
Supporting Services	1,586,873	1,367,285
	<u>4,107,916</u>	<u>3,911,492</u>
TOTAL EXPENDITURES	<u>4,107,916</u>	<u>3,911,492</u>
NET CHANGE IN FUND BALANCES	56,400	179,947
FUND BALANCES, Beginning	<u>731,757</u>	<u>551,810</u>
FUND BALANCES, Ending	<u>\$ 788,157</u>	<u>\$ 731,757</u>

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

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

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

Net change in fund balances - total governmental funds	\$	56,400
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount that capital outlay \$30,114, exceeded depreciation expense (\$17,536) in the current period.		12,578
Deferred Charges related to pensions and OPEB are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.		<u>(538,174)</u>
Change in net position of governmental activities	\$	<u>(469,196)</u>

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

Downtown Denver Expeditionary School (the “School”) was organized in 2013 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado.

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

**Reporting Entity**

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

Based upon the application of these criteria, no additional organizations are includable in the School’s reporting entity. However, the School is a component unit of the Denver Public School 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 of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

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

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

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

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

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

The School reports the following major governmental 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.

**Deferred Outflows/Inflows of Resources**

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Deferred Outflows/Inflows of Resources** (Continued)

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

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

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

*Inventory* – Merchandise consisting of school sweatshirts and shirts that are purchased for resale to the students and remain unsold at year end are recorded as inventory.

*Prepaid Expenses* – Payments made to vendors for services that will benefit future periods are recorded as prepaid expense. An expenditure is reported in the year in which the services are consumed.

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

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

*Unearned Revenues* – Unearned revenues include grants and contribution revenues that have been received but the corresponding expenditure that have not been incurred.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

*Net Position*— The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- Restricted Net Position are liquid assets, which have third party limitations on their use.
- Unrestricted Net Position represent assets that do not have any third party limitation on their use. While School management may have categorized and segmented a portion for various purposes, the School Board has the unrestricted right to revisit or alter these managerial decisions.

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

- Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The School has classified its prepaid expenses and inventories as nonspendable as of June 30, 2018.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

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

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources.

**Compensated Absences**

The School's policy allows employees to accumulate sick and vacation leave. However, any amounts accrued are not payable upon termination. Therefore, no liability for accumulated sick leave or vacation is reported in the financial statements.

**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 coverage for these risks of loss. The School has not had any claims that exceeded the insured amounts for the last three years.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**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.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

**Budgets and Budgetary Accounting**

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

School management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors by June 1. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Deposits

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

At June 30, 2018, the School had deposits with financial institutions with a carrying amount of \$927,753. The bank balances with the financial institutions were \$988,277. Of these balances, \$250,000 was covered by federal depository insurance and \$738,277 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Investments**

Interest Rate Risk

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

Credit Risk

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

- Obligations of the United States and certain U.S. Government Agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Local government investment pools
- Certain money market funds
- Guaranteed investment contracts

The School had no investments at June 30, 2018.

The School has no policy for managing credit risk.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 4: CAPITAL ASSETS**

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
<b>Governmental Activities</b>				
Capital Assets, Depreciated				
Vehicles and Equipment	\$ 159,858	\$ 13,967	\$ -	\$ 173,825
Improvements	<u>25,281</u>	<u>16,147</u>	<u>-</u>	<u>41,428</u>
 Total Capital Assets, Depreciated	 <u>185,139</u>	 <u>30,114</u>	 <u>-</u>	 <u>215,253</u>
 Accumulated Depreciation				
Vehicles and Equipment	30,432	13,662	-	44,094
Improvements	<u>2,107</u>	<u>3,874</u>	<u>-</u>	<u>5,981</u>
 Total Accumulated Depreciation	 <u>32,539</u>	 <u>17,536</u>	 <u>-</u>	 <u>50,075</u>
 Net Capital Assets	 <u><b>\$ 152,600</b></u>	 <u><b>\$ 12,578</b></u>	 <u><b>\$ -</b></u>	 <u><b>\$ 165,178</b></u>

Depreciation has been charged to supporting services program of the School.

**NOTE 5: ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were \$162,987 in the General Fund.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: PENSION PLAN**

**Summary of Significant Accounting Policies**

*Pensions.* The 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.

**General Information about the Pension Plan**

- 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*.

*Plan description.* Eligible employees of the 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 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

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:

- 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 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

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 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, 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.

*Contribution Provisions as of June 30, 2018.* Eligible employees and the 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:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer Contribution Rate	10.15%	10.15%
Amount of Employer Contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)	(1.02%)
PCOP Offset as specified in C.R.S. § 24-51-412	(14.56%)	(14.18%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	5.00%	5.00%
Total Employer Contribution Rate to the DPS Division	4.07%	4.95%

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the School were \$96,147 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 \$2,738,394 for its proportionate share of the net pension liability. The net pension liability for the DPS Division was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The School's proportion of the net pension liability was based on the School's contributions to the DPS Division for the calendar year 2017 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2017, the School's proportion was 0.30545%, which was an increase of 0.02476% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the School recognized pension expense of \$637,868. At June 30, 2018, the 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	\$167,674	\$5,043
Changes in assumptions or other inputs	\$356,806	\$139,423
Net difference between projected and actual earnings on pension plan investments	N/A	\$527,602
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$707,092	N/A
Contributions subsequent to the measurement date	\$54,553	N/A
Total	\$1,286,125	\$672,068

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

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

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

\$54,553 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	\$353,120
2020	\$283,180
2021	\$81,251
2022	(\$158,047)

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

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA’s Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50 – 9.70%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00%
PERA 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

For disabled retirees, the mortality assumption was changed to reflect 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (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	10 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 US Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

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

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

- 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.
- 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

There was no change in the discount rate from the prior 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 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	\$4,309,226	\$2,738,394	\$1,438,223

*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).

**Payables to the pension plan**

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

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

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Changes between the measurement date of the net pension liability and June 30, 2018**  
(continued)

- 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 School reported a liability of \$2,738,394 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 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%	\$ 1,983,971

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Taxable Pension Certificates of Participation (PCOPs)**

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UALL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The School contributed 9.6%, 10.02%, and 9.95% of covered payroll for the fiscal year ended June 30, 2017, 2016 and 2015, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal year ended June 30, 2018, 2017 and 2016 the School made contributions totaling \$204,027, \$207,500 and \$157,809, respectively, to the District towards its PCOPs obligation.

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**

**Summary of Significant Accounting Policies**

*OPEB.* The 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 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).

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

*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 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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

*DPS Benefit Structure*

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

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

*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 School is statutorily committed to pay the contributions. Employer contributions recognized by the DPS HCTF from the School were \$21,678 for the year ended June 30, 2018.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

**General Information about the 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 \$155,078 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 School's proportion of the net OPEB liability was based on the School's 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 School's proportion was 0.30432% percent, which was an increase of 0.02362% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$18,122. At June 30, 2018, the 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	N/A	\$91
Net difference between projected and actual earnings on OPEB plan investments	N/A	\$4,750
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$9,980	N/A
Contributions subsequent to the measurement date	\$11,254	N/A
Total	\$21,234	\$4,841

\$11,254 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:

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: 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)

Year ended June 30,	
2019	\$1,691
2020	\$1,691
2021	\$1,691
2022	\$100
2023	(\$17)
Thereafter	(\$17)

*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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

Health care cost trend rates 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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

Healthy, post-retirement mortality assumptions for the 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.

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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: 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)

- 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 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:

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: 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)**

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 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	\$154,889	\$155,078	\$155,330

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: 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)

*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.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$176,727	\$155,078	\$136,572

*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 8: COMMITMENTS AND CONTINGENCIES**

**Facility Use Agreement**

In July 2013, the School entered into a facility use agreement with the District. Under the terms of the agreement, the School is required to pay an annual use fee of \$773 per student. The facility use fee is payable in four installments, 25% in July and October and 25% in January and April of each fiscal year. As long as the School is not in default under the terms of the agreement it will remain in force concurrent with the School's charter contract.

For the year ended June 30, 2018, the School paid \$313,020 to the District under the terms of the agreement.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 8:**     **COMMITMENTS AND CONTINGENCIES** (Continued)

**Claims and Judgments**

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

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment.

As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2018, the reserve of \$115,000 was recorded as a reservation of fund balance in the General Fund.

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

The beginning net position of the governmental activities was decreased by \$142,241 as the School implemented Governmental Accounting Standards Board (GASB) Statement 75.

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

The net position of the governmental activities is in a deficit position of \$1,309,687 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68 and Net OPEB Liability per the requirements of GASB Statement No. 75.

**REQUIRED SUPPLEMENTARY INFORMATION**

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended June 30, 2018

	2018			VARIANCE Positive (Negative)	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 2,900,480	\$ 2,843,596	\$ 2,845,058	\$ 1,462	\$ 2,744,240
Mill Levy Override	485,493	484,478	484,478	-	457,144
Tuition and Fees	569,327	525,420	513,511	(11,909)	523,684
Grants and Donations	140,200	173,333	175,067	1,734	110,775
Other	-	-	1,274	1,274	101,583
State and Federal Sources					
Grants and Donations	142,038	141,826	144,928	3,102	154,013
<b>TOTAL REVENUES</b>	<b>4,237,538</b>	<b>4,168,653</b>	<b>4,164,316</b>	<b>(4,337)</b>	<b>4,091,439</b>
<b>EXPENDITURES</b>					
Salaries	2,022,877	2,093,242	2,231,169	(137,927)	2,149,673
Employee Benefits	727,438	754,097	585,569	168,528	515,502
Purchased Services	1,036,472	1,007,752	1,037,929	(30,177)	1,001,083
Supplies and Materials	193,896	162,280	158,774	3,506	154,882
Property	114,019	108,282	59,102	49,180	71,864
Other	61,380	43,000	35,373	7,627	18,488
<b>TOTAL EXPENDITURES</b>	<b>4,156,082</b>	<b>4,168,653</b>	<b>4,107,916</b>	<b>60,737</b>	<b>3,911,492</b>
<b>CHANGE IN FUND BALANCES</b>	<b>81,456</b>	<b>-</b>	<b>56,400</b>	<b>56,400</b>	<b>179,947</b>
<b>FUND BALANCE, Beginning</b>	<b>551,175</b>	<b>731,757</b>	<b>731,757</b>	<b>-</b>	<b>551,810</b>
<b>FUND BALANCE, Ending</b>	<b>\$ 632,631</b>	<b>\$ 731,757</b>	<b>\$ 788,157</b>	<b>\$ 56,400</b>	<b>\$ 731,757</b>

See the accompanying independent auditors' report.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
School's proportionate share of the Net Pension Liability	0.012%	0.016%	0.219%	0.281%	0.305%
School's proportionate share of the Net Pension Liability	\$ 622,329	\$ 984,113	\$ 1,782,596	\$ 3,074,827	\$ 2,738,394
School's covered-employee payroll	\$ 326,283	\$ 928,623	\$ 1,371,100	\$ 2,063,063	\$ 2,077,280
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	190.7%	106.0%	130.0%	149.0%	131.8%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%	74.1%	79.5%

See the accompanying independent auditors' report.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

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

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Statutorily required contributions	\$ 34,907	\$ 36,983	\$ 48,069	\$ 90,377	\$ 96,147
Contributions in relation to the Statutorily required contributions	<u>34,907</u>	<u>36,983</u>	<u>48,069</u>	<u>90,377</u>	<u>96,147</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 723,019	\$ 1,156,100	\$ 1,586,020	\$ 2,070,861	\$ 2,125,285
Contributions as a percentage of covered-employee payroll	4.83%	3.20%	3.03%	4.36%	4.52%

See the accompanying independent auditors' report.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL

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

Years Ended December 31,

	<u>2016</u>	<u>2017</u>
School's proportionate share of the Net OPEB Liability	0.281%	0.304%
School's proportionate share of the Net OPEB Liability	\$ 153,005	\$ 155,078
School's covered-employee payroll	\$ 2,063,063	\$ 2,077,280
School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	7.4%	7.5%
Plan fiduciary net position as a percentage of the total OPEB liability	25.17%	30.45%

See the accompanying independent auditors' report.

DOWNTOWN DENVER EXPEDITIONARY SCHOOL  
 SCHEDULE OF THE SCHOOL'S OPEB CONTRIBUTIONS  
 HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	\$ 21,123	\$ 21,678
Contributions in relation to the Statutorily required contributions	21,123	21,678
Contribution deficiency (excess)	\$ -	\$ -
School's covered-employee payroll	\$ 2,070,861	\$ 2,125,285
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

See the accompanying independent auditors' report.