

HIGHLINE ACADEMY NETWORK

BASIC FINANCIAL STATEMENTS

June 30, 2018

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION

Title Page

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

i – vii

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Position

1

Statement of Activities

2

Fund Financial Statements

Balance Sheet – Governmental Funds

3

Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds

4

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of
Activities

5

Notes to the Financial Statements

6 – 38

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

39

Schedule of the Network's Proportionate Share

40

Schedule of the Network's Contributions

41

Schedule of the Network's OPEB Proportionate Share

42

Schedule of the Network's OPEB Contributions

43

TABLE OF CONTENTS

	PAGE
FINANCIAL SECTION (Continued)	
Combining and Individual Fund Schedules	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Governmental Funds	45
Highline NE – Budgetary Comparison Schedule	46
Highline SE – Budgetary Comparison Schedule	47
HASE Building Corporation – Budgetary Comparison Schedule	48

FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Highline Academy Network
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Highline Academy Network (the "Network"), 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 basic financial statements of the Network, 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 the Highline Academy Network as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Network's proportionate share, and schedule of the Network's contributions on pages 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's financial statements. The combining and individual fund financial schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

John Luttrell & Associates, LLC

November 13, 2018

Highline Academy Network Management's Discussion and Analysis

As management of Highline Academy Network (the Network), we offer readers of Highline Academy Network's financial statements our narrative overview and analysis of the financial activities of the Network for the fiscal year ended June 30, 2018.

Financial Highlights

The year ended June 30, 2018 is the second year of operations for the schools operating as a Network. The Southeast Campus completed its fourteenth year and the Northeast Campus completed its fourth year since opening. As of June 30, 2018, net position decreased by \$(542,265) to \$(3,422,712). 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 Network are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue from the Network's two schools: the Northeast Campus and the Southeast Campus. Such revenue for the year was \$6,663,580. At the close of the fiscal year, Highline Academy Network's governmental fund(s) reported an ending fund balance of \$3,164,000, an increase of \$223,235 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 Network's basic financial statements. The Network'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 Network's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the Network'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 Network is improving or deteriorating.

The statement of activities presents information showing how the Network'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 Network supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Denver Public Schools). The governmental activities of the Network 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 Network, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The Network has three governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Network'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 Network'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 Network 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 6-38.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Network's financial position. In the case of Highline Academy Network, liabilities exceeded assets resulting in a net position of \$(3,422,712) 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 Network's total net position, \$262,000 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 Network's general operating expenses.

**Highline Academy Network's Net Position
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS		
Cash and Investments	\$ 2,155,139	\$ 2,057,799
Restricted Cash and Investments	943,156	935,722
Accounts Receivable	22,996	1,903
Prepaid Expenses	54,028	20,624
Inventory	10,599	11,748
Capital Assets, Not Depreciated	2,300,000	2,300,000
Capital Assets, Net of Accum Depreciation	3,907,342	3,888,487
Total Assets	9,393,260	9,216,283
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	2,536,669	2,603,260
Related to OPEB	62,875	-
Total Deferred Outflows of Resources	2,599,544	2,603,260
LIABILITIES		
Accounts Payable	5,238	15,539
Unearned Revenue	7,865	66,222
Accrued Expenses	8,515	4,770
Deposits	300	500
Noncurrent Liabilities		
Bonds Payable		
Due in One Year	130,000	125,000
Due in More than One Year	7,605,000	7,735,000
Net Pension Liability	5,873,680	6,079,600
Net OPEB Liability	332,979	-
Total Liabilities	13,963,577	14,026,631
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	1,441,543	392,100
Related to OPEB	10,396	-
Total Deferred Inflows of Resources	1,451,939	392,100
NET POSITION		
Investment in Capital Assets	(584,502)	(735,791)
Restricted for Emergencies	262,000	243,000
Unrestricted	(3,100,210)	(2,106,397)
Total Net Position	\$ (3,422,712)	\$ (2,599,188)

The largest portion of the Network's assets is in capital assets, at 66% of total assets in 2018.

**Highline Academy Network's Change in Net Position
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Program Revenue:		
Charges for Services	\$ 258,478	\$ 259,340
Operating Grants and Contributions	746,849	117,633
Capital Grants and Contributions	180,292	202,669
Total Program Revenue	1,185,619	579,642
General Revenue:		
Per Pupil Revenue	6,663,580	5,840,768
Mill Levy Revenue	1,344,134	1,113,082
Grants and Donations	-	-
Interest	22,772	2,336
Other Income	442,436	870,209
Total General Revenue	8,472,922	7,826,395
 Total Revenue	 9,658,541	 8,406,037
Expenses:		
Current:		
Instruction	6,541,633	5,533,875
Supporting Services	3,095,223	2,678,108
Interest on Long-Term Debt	563,950	571,450
Total Expenses	10,200,806	8,783,433
 Increase/(Decrease) in Net Position	 (542,265)	 (377,396)
 Net Position, Beginning*	 (2,880,447)	 (2,221,792)
 Net Position, Ending	 \$ (3,422,712)	 \$ (2,599,188)

**The 2017-2018 beginning net position was decreased by \$281,259 as the Network implemented GASB 75.*

The largest portion of the Network's revenues came from per pupil revenue – 69%, respectively in 2018.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the Network's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such

information is useful in assessing the Network's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Network's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Network as a whole reported an ending fund balance of \$3,164,000, an increase of \$223,235 from prior year. The Northeast Campus reported an ending fund balance of \$347,483, an increase of \$105,247 from prior year. The Southeast Campus reported an ending fund balance of \$1,873,361, an increase of \$110,554 from prior year. And the Highline Academy Building Corporation, established to help in financing Network facilities, reported an ending fund balance of \$943,156, an increase of \$7,434 from prior year.

General Fund Budgetary Highlights

The Network approves a final general fund budget in May based on enrollment projections for the Network year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the Network had some variances between its final budgeted and actual activities. Overall, the Network recognized \$41,588 more revenue than expected and spent \$(341,853) less than planned, when compared to the final budget. One budget amendment was made during FY 2017-2018. Additional information regarding budget versus actual activity may be found on pages 46-48 of the financial statements.

Capital Assets & Long-Term Debt

The Network maintains capital assets in the form of an educational facility (Southeast Campus), building improvements, leasehold improvements, and equipment. Depreciation expenses for capital assets are booked under Supporting Services of the Network's operations. Additional information related to capital assets may be found in Note 4 to the financial statements.

The Network has 2011 Charter School Revenue Bonds, the proceeds of which were used to finance the purchase and improvement of the Network's Southeast Campus. Additional information related to long-term debt may be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Highline Academy Network is student enrollment. Enrollment for the 2017-2018 school year was 865.84 funded students (364.84 funded pupils at the Northeast Campus and 501 funded pupils at the Southeast Campus). This information was analyzed as part of the 2018-2019 budget which is projecting a 944.60 funded student count (436.76 funded pupils at the Northeast Campus and 507.84 funded pupils at the Southeast Campus).

Requests for Information

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

Highline Academy – Northeast
19451 East Maxwell Place
Denver, CO 80249

Highline Academy – Southeast
2170 South Dahlia St.
Denver, CO 80222

BASIC FINANCIAL STATEMENTS

HIGHLINE ACADEMY NETWORK

STATEMENT OF NET POSITION

As of June 30, 2018

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Investments	\$ 2,155,139	\$ 2,057,799
Restricted Cash and Investments	943,156	935,722
Accounts Receivable	22,996	1,903
Prepaid Expenses	54,028	20,624
Inventory	10,599	11,748
Capital Assets, Not Depreciated	2,300,000	2,300,000
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>3,907,342</u>	<u>3,888,487</u>
TOTAL ASSETS	<u>9,393,260</u>	<u>9,216,283</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	2,536,669	2,603,260
Related to OPEB	<u>62,875</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,599,544</u>	<u>2,603,260</u>
LIABILITIES		
Accounts Payable	5,238	15,539
Unearned Revenue	7,865	66,222
Accrued Expenses	8,515	4,770
Deposits	300	500
Noncurrent Liabilities		
Bonds Payable		
Due in One Year	130,000	125,000
Due in More than One Year	7,605,000	7,735,000
Net Pension Liability	5,873,680	6,079,600
Net OPEB Liability	<u>332,979</u>	<u>-</u>
TOTAL LIABILITIES	<u>13,963,577</u>	<u>14,026,631</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	1,441,543	392,100
Related to OPEB	<u>10,396</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,451,939</u>	<u>392,100</u>
NET POSITION		
Net Investment in Capital Assets	(584,502)	(735,791)
Restricted for Emergencies	262,000	243,000
Unassigned	<u>(3,100,210)</u>	<u>(2,106,397)</u>
TOTAL NET POSITION	<u>\$ (3,422,712)</u>	<u>\$ (2,599,188)</u>

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

HIGHLINE ACADEMY NETWORK

COMBINING BALANCE SHEET

June 30, 2018

	TOTAL	
	2018	2017
ASSETS		
Cash and Investments	\$ 2,155,139	\$ 2,057,799
Restricted Cash and Investments	943,156	935,722
Accounts Receivable	22,996	1,903
Prepaid Expenses	54,028	20,624
Inventory	10,599	11,748
	<u>\$ 3,185,918</u>	<u>\$ 3,027,796</u>
TOTAL ASSETS		
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 5,238	\$ 15,539
Accrued Expenses	8,515	4,770
Unearned Revenue	7,865	66,222
Deposits	300	500
	<u>21,918</u>	<u>87,031</u>
TOTAL LIABILITIES		
FUND BALANCES		
Nonspendable	64,627	32,372
Restricted for Emergencies	262,000	243,000
Restricted for Capital Outlay	947,845	936,002
Unassigned	1,889,528	1,729,391
	<u>3,164,000</u>	<u>2,940,765</u>
TOTAL FUND BALANCES		
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.	6,207,342	6,188,487
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This includes bonds payable of (\$7,735,000), net pension liability of (\$5,873,680), net OPEB liability of (\$332,979), deferred outflows related to pension of \$2,536,669, deferred outflows related to OPEB of \$62,875, deferred inflows related to pensions of (\$1,441,543), and deferred inflows related to OPEB of (\$10,396).	<u>(12,794,054)</u>	<u>(11,728,440)</u>
Net position of governmental activities	<u>\$ (3,422,712)</u>	<u>\$ (2,599,188)</u>

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

HIGHLINE ACADEMY NETWORK

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

	TOTAL	
	2018	2017
REVENUES		
Local Sources	\$ 9,279,955	\$ 8,085,735
State Sources	315,785	273,233
Federal Sources	62,801	47,069
	<u>9,658,541</u>	<u>8,406,037</u>
TOTAL REVENUES		
EXPENDITURES		
Current		
Instruction	5,798,076	4,769,337
Supporting Services	2,948,280	2,318,081
Debt Service		
Principal	125,000	115,000
Interest	563,950	571,450
	<u>9,435,306</u>	<u>7,773,868</u>
TOTAL EXPENDITURES		
NET CHANGE IN FUND BALANCES	223,235	632,169
FUND BALANCES, Beginning	<u>2,940,765</u>	<u>2,308,596</u>
FUND BALANCES, Ending	<u>\$ 3,164,000</u>	<u>\$ 2,940,765</u>

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

HIGHLINE ACADEMY NETWORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - 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 Changes in Fund Balances - Total Governmental Funds	\$ 223,235
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$211,879 exceeded depreciation expense (\$193,024) in the current period.	18,855
Deferred Charges related to pensions and OPEB are not recognized in the governmental funds. However, for the government-wide funds that amounts are capitalized and amortized.	(909,355)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. These are the note payments for the year.	<u>125,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (542,265)</u></u>

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

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Highline Academy Network (the “Network”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District of the State of Colorado. The Network operates two campuses. These are named the Northeast Campus and the Southeast Campus.

The accounting policies of the Network 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 Network and organizations for which the Network is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Network. In addition, any legally separate organizations for which the Network is financially accountable are considered part of the reporting entity. Financial accountability exists if the Network 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 Network.

The Network includes the Highline Academy Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed to support and assist the Network to perform its function and to carry out its purpose, specifically to assist in the financing of the Network’s facilities. The Building Corporation is blended into the Network’s financial statements as a special revenue fund. Separate financial statements are not available for this entity. The Network 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 Network. 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.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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.

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 Network.

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 Network's policy to use restricted resources first and the unrestricted resources as they are needed.

HIGHLINE ACADEMY NETWORK

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
(Continued)

The Network reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Network. 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.

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

Investments – Investments are stated at fair value.

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

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Network 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.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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: Building and improvements 30 years, Other improvements 10 years.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are recognized in the current period. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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 is 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 is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

Fund Balance Classification – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. 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 Network is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Network classifies Deposits and Prepaid Expenses as nonspendable as these items are not expected to be converted to cash be converted to cash within the next year.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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 Network has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies, and the fund balance in the Building Corporation is restricted for capital outlay.
- 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 Network 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 Network 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.

Compensated Absences

The Network's policy allows employees to accumulate sick and vacation leave. Upon termination of employment, no financial compensation is paid for these unused compensated absences. Therefore, no liability for accumulated sick leave is reported in the financial statements.

Risk Management

The Network 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 Network carries commercial coverage for these risks of loss. The Network has not sustained any losses that exceeded the insurable amounts in the last three years.

HIGHLINE ACADEMY NETWORK

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 Network'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 all funds on a basis consistent with generally accepted accounting principles.

Network management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

NOTE 3: CASH AND INVESTMENTS

A reconciliation of the cash and investment components on the balance sheet to the cash and investments categories in this footnote are as follows:

Deposits	\$ 2,116,223
Investments	<u>982,072</u>
Total Cash and Investments	<u>\$ 3,098,295</u>

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

The above amounts are classified in the statement of net position as follows:

Cash and Investments	\$ 2,116,223
Restricted Cash and Investments	<u>982,072</u>
Total	<u>\$ 3,098,295</u>

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 Network 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. 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 Network has no policy regarding custodial credit risk for deposits.

At June 30, 2018, the Network had deposits with financial institutions with a carrying amount of \$2,116,223. The bank balances with the financial institutions were \$2,150,921. Of this amount, \$250,000 was covered by federal depository insurance and \$1,900,921 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

Interest Rate Risk Policies

The Network does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, or a formal policy to limit credit risk. However, they follow state statutes regarding investments.

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
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

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

Fair Value

The Network categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

At June 30, 2018, the Network had \$943,156 invested in money market funds. The fund invests only in U.S. Treasury obligations and is rated AAAM by Standard and Poor's. These investments are valued with Level 1 inputs.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: *CASH AND INVESTMENTS* (Continued)

Local Government Investment Pools

The Network had invested \$38,916 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

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

The Network has no policy for managing credit risk or interest rate risk.

Restricted Cash and Investments

Cash and investments in the amount of \$943,156 are restricted in the Building Corporation Fund for construction expenses and debt service payments. Cash in the amount of \$38,916 has also been restricted for board designated projects.

HIGHLINE ACADEMY NETWORK

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>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 2,300,000	\$ -	\$ -	\$ 2,300,000
Capital Assets, Depreciated				
Building and Improvements	4,748,857	-	-	4,748,857
Leasehold Improvements	110,789	211,879	-	322,668
Equipment – Northeast	14,606	-	-	14,606
Equipment - Southeast	<u>28,666</u>	<u>-</u>	<u>-</u>	<u>28,666</u>
Total Capital Assets, Depreciated	<u>4,902,918</u>	<u>211,879</u>	<u>-</u>	<u>5,114,797</u>
Accumulated Depreciation				
Building and Improvements	949,705	158,362	-	1,108,067
Leasehold Improvements	50,511	27,883	-	78,394
Equipment – Northeast	7,789	2,921	-	10,710
Equipment - Southeast	<u>6,426</u>	<u>3,858</u>	<u>-</u>	<u>10,284</u>
Total Accumulated Depreciation	<u>1,014,431</u>	<u>193,024</u>	<u>-</u>	<u>1,207,455</u>
Total Capital Assets, Depreciated, Net	<u>3,888,487</u>	<u>18,855</u>	<u>-</u>	<u>3,907,342</u>
Total Capital Assets, Net	<u>\$ 6,188,487</u>	<u>\$ 18,855</u>	<u>\$ -</u>	<u>\$ 6,207,342</u>

Depreciation expense is charged to the Supporting Services Activity.

NOTE 5: LONG-TERM DEBT

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2018</u>	Due In <u>One Year</u>
2011A Revenue Bonds	<u>\$ 7,860,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 7,735,000</u>	<u>\$ 130,000</u>

HIGHLINE ACADEMY NETWORK
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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

Series 2011A Charter School Revenue Bonds

In January 2011, the Public Finance Authority issued \$8,260,000 Charter School Revenue Bonds, Series 2011A. Proceeds from the bonds were used to purchase the Network’s building and provide funding for improvements. The Network is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 6.25% to 7.375% per year. The bond matures in December, 2040.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 130,000	\$ 560,044	\$ 690,044
2020	140,000	551,919	691,919
2021	150,000	543,169	693,169
2022	160,000	533,794	693,794
2023	170,000	522,794	692,794
2024-2028	1,035,000	2,425,607	3,460,607
2029-2033	1,480,000	1,991,250	3,471,250
2034-2038	2,100,000	1,360,689	3,460,689
2039-2041	<u>2,370,000</u>	<u>406,732</u>	<u>2,776,732</u>
Totals	<u>\$ 7,735,000</u>	<u>\$ 8,895,998</u>	<u>\$ 16,630,998</u>

NOTE 6: **PENSION PLAN**

Summary of Significant Accounting Policies

Pensions. The Network 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.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: PENSION PLAN (Continued)

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 Network 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.

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.

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.

HIGHLINE ACADEMY NETWORK

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 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. 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.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 6: PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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 Network 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%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the Network is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the Network were \$245,323 for the year ended June 30, 2018.

HIGHLINE ACADEMY NETWORK

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

At June 30, 2018 the Network reported a liability of \$5,873,680 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 Network's proportion of the net pension liability was based on the Network'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 Network's proportion was 0.65517%, which was an increase of 0.1002% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the Network recognized pension expense of \$1,155,446. At June 30, 2018, the Network 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	\$359,650	\$10,817
Changes in assumptions or other inputs	\$765,326	\$299,054
Net difference between projected and actual earnings on pension plan investments	N/A	\$1,131,672
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$1,289,086	N/A
Contributions subsequent to the measurement date	\$122,607	N/A
Total	\$2,536,669	\$1,441,543

\$122,607 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:

HIGHLINE ACADEMY NETWORK

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)

Year ended June 30,	
2019	\$642,855
2020	\$452,220
2021	\$165,528
2022	(\$289,084)

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

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.

HIGHLINE ACADEMY NETWORK
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)

- **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 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.

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:

HIGHLINE ACADEMY NETWORK

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)

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%.
- 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.

HIGHLINE ACADEMY NETWORK

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)

- 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. There was no change in the discount rate from the prior measurement date.

HIGHLINE ACADEMY NETWORK

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)

Sensitivity of the Network’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	\$9,243,011	\$5,873,680	\$3,084,896

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.

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

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

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

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

HIGHLINE ACADEMY NETWORK

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 Network reported a liability of \$5,873,680 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 Network'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%	\$ 4,255,491

HIGHLINE ACADEMY NETWORK

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 Network contributed 10.80%, 9.95%, and 9.84% of covered payroll for the fiscal year ended June 30, 2018, 2017, and 2016, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal year ended June 30, 2018, 2017, and 2016 the Network made contributions totaling \$464,040, \$408,510 and \$333,331, 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 Network 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 Network 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.

HIGHLINE ACADEMY NETWORK

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.

HIGHLINE ACADEMY NETWORK

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 Network is statutorily committed to pay the contributions. Employer contributions recognized by the DPS HCTF from the Network were \$49,304 for the year ended June 30, 2018.

HIGHLINE ACADEMY NETWORK

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

At June 30, 2018, the Network reported a liability of \$332,979 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 Network's proportion of the net OPEB liability was based on the Network'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 Network's proportion was 0.64399%, which was an increase of 0.089% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Network recognized OPEB expense of \$53,468. At June 30, 2018, the Network 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	\$196
Net difference between projected and actual earnings on OPEB plan investments	N/A	\$10,200
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$37,611	N/A
Contributions subsequent to the measurement date	\$25,264	N/A
Total	\$62,875	\$10,396

HIGHLINE ACADEMY NETWORK

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

\$25,264 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2019	\$8,357
2020	\$8,357
2021	\$8,357
2022	\$2,364
2023	(\$33)
Thereafter	(\$187)

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

HIGHLINE ACADEMY NETWORK

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)

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

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

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

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

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.

HIGHLINE ACADEMY NETWORK

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

Healthy, post-retirement mortality assumptions for the DPS Division were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

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.

HIGHLINE ACADEMY NETWORK

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)

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

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

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

HIGHLINE ACADEMY NETWORK

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)

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

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

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

HIGHLINE ACADEMY NETWORK

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 Network'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	\$327,773	\$332,979	\$328,707

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.

HIGHLINE ACADEMY NETWORK

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)

- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

Sensitivity of the Network'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	\$373,986	\$332,979	\$289,012

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.

HIGHLINE ACADEMY NETWORK

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The Network 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 Network may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited, but the Network believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Network.

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 Network believes it has complied with the Amendment. As required by the Amendment, the Network has established a reserve for emergencies. At June 30, 2018, the reserve of \$262,000 was recorded as a reservation of fund balance in the General Fund.

NOTE 9: RESTATEMENT OF NET POSITION

The beginning net position of the government activities was decreased by \$281,259 as the Network implemented Governmental Accounting Standard Board (GASB) Statement No. 75.

NOTE 10: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$3,422,712 due to the Network including the Net Pension Liability per GASB No. 68 and the Net OPEB Liability per GASB No.75.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLINE ACADEMY NETWORK

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	2018			Variance Positive (Negative)	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 6,520,440	\$ 6,659,967	\$ 6,663,580	\$ 3,613	\$ 5,840,768
Mill Levy Override	1,285,244	1,348,024	1,344,134	(3,890)	1,113,082
Tuition and Fees	255,113	264,508	258,478	(6,030)	259,340
Grants and Donations	-	-	548,555	548,555	-
Interest	8,100	9,500	22,772	13,272	2,336
Other	767,816	952,815	442,436	(510,379)	870,209
State Sources					
Grants and Donations	281,562	318,733	315,785	(2,948)	273,233
Federal Sources					
Grants and Donations	41,671	63,406	62,801	(605)	47,069
TOTAL REVENUES	<u>9,159,946</u>	<u>9,616,953</u>	<u>9,658,541</u>	<u>41,588</u>	<u>8,406,037</u>
EXPENDITURES					
Salaries	4,839,421	5,113,994	5,060,970	53,024	4,202,155
Employee Benefits	1,156,380	1,193,438	1,176,544	16,894	943,167
Purchased Services	1,726,223	1,860,072	1,845,434	14,638	1,461,640
Supplies and Materials	283,235	318,728	279,209	39,519	324,062
Property	82,050	388,598	300,705	87,893	73,896
Other	663,597	211,711	83,494	128,217	82,498
Debt Service					
Principal	125,000	125,000	125,000	-	115,000
Interest	565,000	565,000	563,950	1,050	571,450
TOTAL EXPENDITURES	<u>9,440,906</u>	<u>9,776,541</u>	<u>9,435,306</u>	<u>341,235</u>	<u>7,773,868</u>
NET CHANGE IN FUND BALANCE					
	(280,960)	(159,588)	223,235	382,823	632,169
FUND BALANCE, Beginning	<u>1,566,464</u>	<u>2,005,043</u>	<u>2,940,765</u>	<u>935,722</u>	<u>2,308,596</u>
FUND BALANCE, Ending	<u>1,285,504</u>	<u>\$ 1,845,455</u>	<u>3,164,000</u>	<u>\$ 1,318,545</u>	<u>\$ 2,940,765</u>

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

SCHEDULE OF THE NETWORK'S PROPORTIONATE SHARE
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,
(Network Division Trust Fund Measurement Date)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Network's proportionate share of the Net Pension Liability	0.3648%	0.4872%	0.4988%	0.5550%	0.6552%
Network's proportionate share of the Net Pension Liability	\$ 1,897,445	\$ 3,042,730	\$ 4,057,547	\$ 6,079,600	5,873,680
Network's covered-employee payroll	\$ 1,988,937	\$ 2,539,415	\$ 3,137,696	\$ 3,667,074	4,440,870
Network's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	95.4%	119.8%	129.3%	165.8%	132.3%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%	74.1%	79.51%

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

SCHEDULE OF THE NETWORK'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	\$ 103,377	\$ 138,635	\$ 102,414	\$ 175,423	\$ 245,323
Contributions in relation to the Statutorily required contributions	<u>103,377</u>	<u>138,635</u>	<u>102,414</u>	<u>175,423</u>	<u>245,323</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Network's covered-employee payroll	\$ 2,124,442	\$ 2,894,891	\$ 3,400,665	\$ 4,004,968	\$ 4,833,752
Contributions as a percentage of covered-employee payroll	4.87%	4.79%	3.01%	4.38%	5.08%

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

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

Years Ended December 31,
(Network Division Trust Fund Measurement Date)

	<u>2016</u>	<u>2017</u>
Network's proportionate share of the Net OPEB Liability	0.5550%	0.6440%
Network's proportionate share of the Net OPEB Liability	302,507	332,979
Network's covered-employee payroll	3,667,074	4,440,870
Network's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	165.8%	265.8%
Plan fiduciary net position as a percentage of the total OPEB liability	25.1700%	30.4500%

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK
 SCHEDULE OF THE NETWORK'S CONTRIBUTIONS
 HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	\$ 40,851	\$ 49,304
Contributions in relation to the Statutorily required contributions	40,851	49,304
Contribution deficiency (excess)	\$ -	\$ -
Network's covered-employee payroll	\$ 4,004,968	\$ 4,833,752
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

See the accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND SCHEDULES

HIGHLINE ACADEMY NETWORK

COMBINING BALANCE SHEET

June 30, 2018

	NORTH	SOUTH	BUILDING	TOTAL	
	EAST	EAST	CORPORATION	2018	2017
ASSETS					
Cash and Investments	\$ 318,396	\$ 1,836,743	\$ -	\$ 2,155,139	\$ 2,057,799
Restricted Cash and Investments	-	-	943,156	943,156	935,722
Accounts Receivable	6,633	16,363	-	22,996	1,903
Prepaid Expenses	17,257	36,771	-	54,028	20,624
Inventory	7,801	2,798	-	10,599	11,748
TOTAL ASSETS	\$ 350,087	\$ 1,892,675	\$ 943,156	\$ 3,185,918	\$ 3,027,796
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ -	\$ 5,238	\$ -	\$ 5,238	\$ 15,539
Accrued Expenses	2,304	6,211	-	8,515	4,770
Unearned Revenue	-	7,865	-	7,865	66,222
Deposits	300	-	-	300	500
TOTAL LIABILITIES	2,604	19,314	-	21,918	87,031
FUND BALANCES					
Nonspendable	25,058	39,569	-	64,627	32,372
Restricted for Emergencies	113,000	149,000	-	262,000	243,000
Restricted for Capital Outlay	4,689	-	943,156	947,845	936,002
Unassigned	204,736	1,684,792	-	1,889,528	1,729,391
TOTAL FUND BALANCES	347,483	1,873,361	943,156	3,164,000	2,940,765
TOTAL LIABILITIES AND FUND BALANCES	\$ 350,087	\$ 1,892,675	\$ 943,156	\$ 3,185,918	\$ 3,027,796

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

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

	NORTH EAST	SOUTH EAST	BUILDING CORPORATION	TOTAL	
				2018	2017
REVENUES					
Local Sources	\$ 4,080,984	\$ 5,192,629	\$ 6,342	\$ 9,279,955	\$ 8,085,735
State Sources	119,444	196,341	-	315,785	273,233
Federal Sources	39,681	23,120	-	62,801	47,069
TOTAL REVENUES	4,240,109	5,412,090	6,342	9,658,541	8,406,037
EXPENDITURES					
Current					
Instruction	2,965,886	2,832,190	-	5,798,076	4,769,337
Supporting Services	1,168,976	1,779,304	-	2,948,280	2,318,081
Debt Service					
Principal	-	-	125,000	125,000	115,000
Interest	-	-	563,950	563,950	571,450
TOTAL EXPENDITURES	4,134,862	4,611,494	688,950	9,435,306	7,773,868
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	105,247	800,596	(682,608)	223,235	632,169
OTHER FINANCING SOURCES (USES)					
Transfers In	-	17,455	707,497	724,952	692,372
Transfers Out	-	(707,497)	(17,455)	(724,952)	(692,372)
TOTAL OTHER FINANCING SOURCES (USES)	-	(690,042)	690,042	-	-
NET CHANGE IN FUND BALANCES	105,247	110,554	7,434	223,235	632,169
FUND BALANCES, Beginning	242,236	1,762,807	935,722	2,940,765	2,308,596
FUND BALANCES, Ending	<u>\$ 347,483</u>	<u>\$ 1,873,361</u>	<u>\$ 943,156</u>	<u>\$ 3,164,000</u>	<u>\$ 2,940,765</u>

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

HIGHLINE ACADEMY NORTH EAST
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2018

	2018			Variance Positive (Negative)	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 2,613,760	\$ 2,693,219	\$ 2,694,924	\$ 1,705	\$ 1,960,362
Mill Levy Override	637,639	667,543	665,538	(2,005)	485,753
Grants and Donations	-	-	26,087	26,087	-
Tuition and Fees	82,813	82,368	85,035	2,667	79,161
Interest	-	-	2,811	2,811	234
Other	561,925	611,690	311,189	(300,501)	530,081
State Sources					
Grants and Donations	77,354	120,765	414,844	294,079	64,573
Federal Sources					
Grants and Donations	18,095	39,830	39,681	(149)	19,544
TOTAL REVENUES	<u>3,991,586</u>	<u>4,215,415</u>	<u>4,240,109</u>	<u>24,694</u>	<u>3,139,708</u>
EXPENDITURES					
Salaries	2,182,258	2,387,309	2,413,762	(26,453)	1,756,640
Employee Benefits	514,368	565,038	566,132	(1,094)	401,532
Purchased Services	901,313	967,130	936,858	30,272	681,078
Supplies and Materials	118,300	131,400	115,013	16,387	150,898
Property	50,050	93,598	85,727	7,871	12,185
Other	76,430	53,555	17,370	36,185	14,819
TOTAL EXPENDITURES	<u>3,842,719</u>	<u>4,198,030</u>	<u>4,134,862</u>	<u>63,168</u>	<u>3,017,152</u>
NET CHANGE IN FUND BALANCE					
	148,867	17,385	105,247	87,862	122,556
FUND BALANCE, Beginning	<u>254,339</u>	<u>242,236</u>	<u>242,236</u>	<u>-</u>	<u>119,680</u>
FUND BALANCE, Ending	<u>\$ 403,206</u>	<u>\$ 259,621</u>	<u>\$ 347,483</u>	<u>\$ 87,862</u>	<u>\$ 242,236</u>

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

HIGHLINE ACADEMY SOUTH EAST
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2018

	2018			VARIANCE	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 3,906,680	\$ 3,966,748	\$ 3,968,656	\$ 1,908	\$ 3,880,406
Mill Levy Override	647,605	680,481	678,596	(1,885)	627,329
Tuition and Fees	172,300	182,140	173,443	(8,697)	180,179
Grants and Donations	-		227,068	227,068	-
Interest	1,600	3,000	13,619	10,619	1,476
Other	205,891	341,125	131,247	(209,878)	340,128
State Sources					
Grants and Donations	204,208	197,968	196,341	(1,627)	208,660
Federal Sources					
Grants and Donations	23,576	23,576	23,120	(456)	27,525
TOTAL REVENUES	5,161,860	5,395,038	5,412,090	17,052	5,265,703
EXPENDITURES					
Salaries	2,657,163	2,726,685	2,647,208	79,477	2,445,515
Employee Benefits	642,012	628,400	610,412	17,988	541,635
Purchased Services	824,910	892,942	908,576	(15,634)	780,562
Supplies and Materials	164,935	187,328	164,196	23,132	173,164
Property	32,000	295,000	214,978	80,022	61,711
Other	587,167	140,428	66,124	74,304	67,679
TOTAL EXPENDITURES	4,908,187	4,870,783	4,611,494	259,289	4,070,266
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	253,673	524,255	800,596	276,341	1,195,437
OTHER FINANCING USES					
Transfers In	-	-	17,455	17,455	688
Transfers Out	(727,716)	(707,944)	(707,497)	447	(691,684)
TOTAL OTHER FINANCING SOURCES	(727,716)	(707,944)	(690,042)	17,902	(690,996)
NET CHANGE IN FUND BALANCE	(474,043)	(183,689)	110,554	294,243	504,441
FUND BALANCE, Beginning	1,312,125	1,762,807	1,762,807	-	1,258,366
FUND BALANCE, Ending	838,082	\$ 1,579,118	1,873,361	\$ 294,243	\$ 1,762,807

See the accompanying independent auditors' report.

HIGHLINE ACADEMY NETWORK

HIGHLINE ACADEMY SOUTHEAST BUILDING CORPORATION
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2018

	2018		VARIANCE Positive (Negative)	2017 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Local Services				
Interest	\$ 6,500	\$ 6,342	\$ (158)	\$ 626
TOTAL REVENUES	6,500	6,342	(158)	626
EXPENDITURES				
Debt Service				
Principal	125,000	125,000	-	115,000
Interest	565,000	563,950	1,050	571,450
TOTAL EXPENDITURES	690,000	688,950	1,050	686,450
EXCESS OF EXPENDITURES OVER REVENUES	(683,500)	(682,608)	(892)	(685,824)
OTHER FINANCING SOURCES				
Transfers In	707,716	707,497	(219)	691,684
Transfers Out	(17,500)	(17,455)	45	(688)
TOTAL OTHER FINANCING SOURCES	690,216	690,042	(174)	690,996
NET CHANGE IN FUND BALANCE	6,716	7,434	718	5,172
FUND BALANCE, Beginning	935,722	935,722	-	930,550
FUND BALANCE, Ending	\$ 942,438	\$ 943,156	\$ 718	\$ 935,722

See the accompanying independent auditors' report.