

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)

Financial Statements

June 30, 2018

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
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June 30, 2018

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**HINKLE &
COMPANY**
Strategic PC
Business Advisors

Independent Auditors' Report

Governing Council
Challenge to Excellence Charter School
Parker, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School, component unit of Douglas County School District RE.1, 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 Challenge to Excellence Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, in the year ended June 30, 2018, the Challenge to Excellence Charter School adopted new accounting guidance as required by Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 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.

Hick & Company, PC

Greenwood Village, Colorado
October 10, 2018



Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2018

As management of Challenge to Excellence Charter School (C2E or the School), we offer readers of Challenge to Excellence Charter School's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2018 is the sixteenth year of operations for C2E. As of June 30, 2018, net position decreased by \$(2,720,289) to \$(9,885,843). Challenge to Excellence Charter School's governmental fund reported an ending fund balance of \$2,238,983, an increase of \$307,003 from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was \$3,516,295.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year-end).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's

authorizer (Douglas County School District). The governmental activities of C2E include instruction and supporting services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

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.

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

The School maintains one governmental fund, and adopts an annually appropriated budget for the fund. A budgetary comparison schedule is included to demonstrate that spending did not exceed the budget.

Proprietary Funds

The School also maintains a proprietary fund to record the activity of the C2E Building Corporation (the "Corporation"). The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for, and to make same available for use by, the School, and to otherwise provide facilities, equipment and other physical plant and related support to the School.

Notes to the Financial Statements

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

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2018, C2E's net position was \$(9,885,843). This position includes a net pension liability in the amount of \$14,766,391, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. The School's net position also includes a net OPEB (Other Postemployment Benefit) liability in the amount of \$337,202, representing the School's proportionate share of the defined benefit Health Care Trust Fund, administered by PERA. The School reports this net OPEB liability, and associated deferred inflows and outflows of resources, as requirement by GASB 75. This standard was made effective July 1, 2017 and resulted in a restated net position for June 30, 2017. More information regarding the net pension and OPEB liabilities may be found in the notes to the financial statements.

Of the School's total net position, \$(1,086,766) is invested in capital assets, \$28,737 is restricted for debt service, and \$132,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Challenge to Excellence Charter School's Net Position

	2017-2018	2016-2017
ASSETS		
Cash and Investments	\$ 2,448,447	\$ 2,245,107
Restricted Cash and Investments	45,095	102,698
Accounts Receivable	-	305
Prepaid Expenses	-	9,815
Capital Assets, Not Being Depreciated	1,010,419	1,010,419
Capital Assets, Net of Accumulated Depreciation	<u>3,329,782</u>	<u>3,554,076</u>
TOTAL ASSETS	<u>6,833,743</u>	<u>6,922,420</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	4,624,199	5,233,954
OPEB, Net of Accumulated Amortization	22,055	-
Loss on Debt Refunding, Net of Accumulated Amortization	<u>213,687</u>	<u>236,180</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,859,941</u>	<u>5,470,134</u>
LIABILITIES		
Accounts Payable	30,663	19,079
Accrued Liabilities	1,981	7,336
Accrued Salaries and Benefits	176,820	166,300
Unearned Revenue	-	500
Accrued Interest Payable	16,358	-
Noncurrent Liabilities		
Due Within One Year	152,253	135,102
Due in More Than One Year	5,488,401	5,640,654
Net Pension Liability	14,766,391	13,205,120
Net OPEB Liability	<u>337,202</u>	<u>-</u>
TOTAL LIABILITIES	<u>20,970,069</u>	<u>19,174,091</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	603,817	69,027
OPEB, Net of Accumulated Amortization	<u>5,641</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>609,458</u>	<u>69,027</u>
NET POSITION		
Investment in Capital Assets	(1,086,766)	(975,081)
Restricted for Debt Service	28,737	102,698
Restricted for Emergencies	132,000	128,000
Unrestricted	<u>(8,959,814)</u>	<u>(6,106,181)</u>
TOTAL NET POSITION	<u>\$ (9,885,843)</u>	<u>\$ (6,850,564)</u> *

*Restated to \$(7,165,554) to reflect the cumulative effect of adopting GASB 75.

Challenge to Excellence Charter School's Change in Net Position

	2017-2018	2016-2017
REVENUES		
Per Pupil Revenue	\$ 3,516,295	\$ 3,390,259
District Mill Levy	260,326	260,864
Capital Construction	126,303	132,387
Charges for Services	399,178	439,604
Operating Grants and Contributions	26,088	18,292
Investment Income	24,658	13,233
Other	<u>25,857</u>	<u>7,118</u>
 TOTAL REVENUE	 <u>4,378,705</u>	 <u>4,261,757</u>
EXPENSES		
Instruction	4,581,275	4,348,987
Supporting Services	1,999,342	1,518,935
Building Corporation	<u>518,377</u>	<u>601,736</u>
 TOTAL EXPENSES	 <u>7,098,994</u>	 <u>6,469,658</u>
 CHANGE IN NET POSITION	 (2,720,289)	 (2,207,901)
 NET POSITION, Beginning	 <u>(7,165,554)</u>	 <u>(4,642,663)</u>
 NET POSITION, Ending	 <u>\$ (9,885,843)</u>	 <u>\$ (6,850,564) *</u>

*Restated to \$(7,165,554) to reflect the cumulative effect of adopting GASB 75.

Financial Analysis of the Government's Fund

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

The focus of the School's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$2,238,983, an increase of \$307,003 from the prior year.

General Fund Budgetary Highlights

C2E recognized \$49,850 less revenue than expected and spent \$359,488 less than planned, when compared to the final budget. There were budget amendments during the year, which reflected changes in revenues and expenditures. Overall, revenue and expenses were fine-tuned to account

for changes to student enrollment. The School also received an unbudgeted transfer from the Building Corporation as the result of debt refinancing at the close of fiscal year 2016-2017.

Capital Assets & Long-Term Debt

The School has invested in capital assets for the School's education facility and land. More information regarding capital assets may be found in Note 4 to the financial statements. Depreciation expenses for capital assets are booked under the Supporting Services program of the School's operations.

The School has long-term debt in the form a loan acquired at the close of 2016-2017 to refinance 2007 Charter School Revenue Refunding Bonds, the proceeds of which were used to refund Series 2004 Bonds which were used by the Corporation to construct the School's building. More information regarding 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 Challenge to Excellence Charter School is student enrollment. Enrollment for the 2017-2018 school year was 478.84 funded students. Enrollment projected for 2018-2019 is 500.50 funded students. This factor was considered when preparing C2E's budget for 2018-2019.

Requests for Information

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

Challenge to Excellence Charter School
16995 E. Carlson Drive
Parker, CO 80134

Basic Financial Statements

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments	\$ 2,448,447	\$ -	\$ 2,448,447
Restricted Cash and Investments	-	45,095	45,095
Capital Assets, <i>Not Being Depreciated</i>	-	1,010,419	1,010,419
Capital Assets, <i>Net of Accumulated Depreciation</i>	<u>111,621</u>	<u>3,218,161</u>	<u>3,329,782</u>
Total Assets	<u>2,560,068</u>	<u>4,273,675</u>	<u>6,833,743</u>
Deferred Outflows of Resources			
Pensions, <i>Net of Accumulated Amortization</i>	4,624,199	-	4,624,199
OPEB, <i>Net of Accumulated Amortization</i>	22,055	-	22,055
Loss on Debt Refunding, <i>Net of Accumulated Amortization</i>	<u>-</u>	<u>213,687</u>	<u>213,687</u>
Total Deferred Outflows of Resources	<u>4,646,254</u>	<u>213,687</u>	<u>4,859,941</u>
Liabilities			
Accounts Payable	30,663	-	30,663
Accrued Liabilities	1,981	-	1,981
Accrued Salaries and Benefits	176,820	-	176,820
Accrued Interest Payable	-	16,358	16,358
Noncurrent Liabilities			
Due Within One Year	-	152,253	152,253
Due in More Than One Year	-	5,488,401	5,488,401
Net Pension Liability	14,766,391	-	14,766,391
Net OPEB Liability	<u>337,202</u>	<u>-</u>	<u>337,202</u>
Total Liabilities	<u>15,313,057</u>	<u>5,657,012</u>	<u>20,970,069</u>
Deferred Inflows of Resources			
Pensions, <i>Net of Accumulated Amortization</i>	603,817	-	603,817
OPEB, <i>Net of Accumulated Amortization</i>	<u>5,641</u>	<u>-</u>	<u>5,641</u>
Total Deferred Inflows of Resources	<u>609,458</u>	<u>-</u>	<u>609,458</u>
Net Position			
Net Investment in Capital Assets	111,621	(1,198,387)	(1,086,766)
Restricted for:			
Debt Service	-	28,737	28,737
Emergencies	132,000	-	132,000
Unrestricted	<u>(8,959,814)</u>	<u>-</u>	<u>(8,959,814)</u>
Total Net Position	<u>\$ (8,716,193)</u>	<u>\$ (1,169,650)</u>	<u>\$ (9,885,843)</u>

See Notes to Financial Statements.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
<i>Governmental Activities</i>						
Instruction	\$ 4,581,275	\$ 296,904	\$ 26,088	\$ (4,258,283)	\$ -	\$ (4,258,283)
Supporting Services	1,999,342	102,274	-	(1,897,068)	-	(1,897,068)
Total Governmental Activities	<u>6,580,617</u>	<u>399,178</u>	<u>26,088</u>	<u>(6,155,351)</u>	<u>-</u>	<u>(6,155,351)</u>
<i>Business-Type Activities</i>						
Building Corporation	518,377	-	-	-	(518,377)	(518,377)
Total Primary Government	<u>\$ 7,098,994</u>	<u>\$ 399,178</u>	<u>\$ 26,088</u>	<u>(6,155,351)</u>	<u>(518,377)</u>	<u>(6,673,728)</u>
General Revenues						
Per Pupil Revenue				3,516,295	-	3,516,295
District Mill Levy				260,326	-	260,326
Capital Construction				126,303	-	126,303
Investment Income				24,582	76	24,658
Other				25,857	-	25,857
Transfers				<u>(219,794)</u>	<u>219,794</u>	<u>-</u>
Total General Revenues and Transfers				<u>3,733,569</u>	<u>219,870</u>	<u>3,953,439</u>
Change in Net Position				(2,421,782)	(298,507)	(2,720,289)
Net Position, Beginning of year				<u>(6,294,411)</u>	<u>(871,143)</u>	<u>(7,165,554)</u>
Net Position, End of year				<u>\$ (8,716,193)</u>	<u>\$ (1,169,650)</u>	<u>\$ (9,885,843)</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Balance Sheet
 Governmental Fund
 June 30, 2018

	General
Assets	
Cash and Investments	\$ <u>2,448,447</u>
Total Assets	\$ <u><u>2,448,447</u></u>
Liabilities and Fund Balance	
<i>Liabilities</i>	
Accounts Payable	\$ 30,663
Accrued Liabilities	1,981
Accrued Salaries and Benefits	<u>176,820</u>
Total Liabilities	<u>209,464</u>
<i>Fund Balance</i>	
Restricted for Emergencies	132,000
Unrestricted, Unassigned	<u>2,106,983</u>
Total Fund Balance	<u>2,238,983</u>
Total Liabilities and Fund Balance	\$ <u><u>2,448,447</u></u>

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

Total Fund Balance of the Governmental Fund	\$ 2,238,983
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	111,621
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds.	
Net pension liability	(14,766,391)
Pension-related deferred outflows of resources	4,624,199
Pension-related deferred inflows of resources	(603,817)
Net OPEB liability	(337,202)
OPEB-related deferred outflows of resources	22,055
OPEB-related deferred inflows of resources	<u>(5,641)</u>
Total Net Position of Governmental Activities	\$ <u><u>(8,716,193)</u></u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2018

	General
Revenues	
<i>Local Sources</i>	
Per Pupil Revenue	\$ 3,516,295
District Mill Levy	260,326
Tuition	201,093
Student Fees and Activities	198,085
Investment Income	24,582
Other	25,857
<i>State Sources</i>	
Capital Construction	126,303
Grants	26,088
Total Revenues	4,378,629
Expenditures	
Instruction	2,808,202
Supporting Services	1,393,643
Total Expenditures	4,201,845
Excess of Revenues Over Expenditures	176,784
Other Financing Sources (Uses)	
Transfers In	130,219
Net Change in Fund Balance	307,003
Fund Balance, Beginning of year	1,931,980
Fund Balance, End of year	\$ 2,238,983

Challenge to Excellence Charter School

(A Component Unit of Douglas County School District RE.1)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities For the Year Ended June 30, 2018

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

Net Change in Fund Balance of the Governmental Fund	\$ 307,003
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.	
Depreciation expense	(17,171)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following.	
Net pension liability	(1,561,271)
Pension-related deferred outflows of resources	(609,755)
Pension-related deferred inflows of resources	(534,790)
Net OPEB liability	(10,348)
OPEB-related deferred outflows of resources	10,191
OPEB-related deferred inflows of resources	<u>(5,641)</u>
Change in Net Position of Governmental Activities	<u>\$ (2,421,782)</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Net Position
Proprietary Fund
June 30, 2018

	Building Corporation
Assets	
<i>Current Assets</i>	
Restricted Cash and Investments	\$ <u>45,095</u>
<i>Noncurrent Assets</i>	
Capital Assets, <i>Not Being Depreciated</i>	1,010,419
Capital Assets, <i>Net of Accumulated Depreciation</i>	<u>3,218,161</u>
Total Noncurrent Assets	<u>4,228,580</u>
Total Assets	<u>4,273,675</u>
Deferred Outflows of Resources	
Loss on Debt Refunding, <i>Net of Accumulated Amortization</i>	<u>213,687</u>
Liabilities	
<i>Current Liabilities</i>	
Accrued Interest Payable	16,358
Loan Payable, <i>Current Portion</i>	<u>152,253</u>
Total Current Liabilities	168,611
<i>Noncurrent Liabilities</i>	
Loan Payable	<u>5,488,401</u>
Total Liabilities	<u>5,657,012</u>
Net Position	
Net Investment in Capital Assets	(1,198,387)
Restricted for Debt Service	<u>28,737</u>
Total Net Position	<u>\$ (1,169,650)</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	<u>Building Corporation</u>
Operating Revenues	
Lease Income	\$ <u>350,013</u>
Total Operating Revenues	<u>350,013</u>
Operating Expenses	
Depreciation	207,123
Debt Service	
Interest and Fiscal Charges	<u>224,467</u>
Total Operating Expenses	<u>431,590</u>
Net Operating Income (Loss)	<u>(81,577)</u>
Nonoperating Revenues (Expenses)	
Investment Income	76
Debt Issuance Costs	<u>(86,787)</u>
Total Nonoperating Revenues (Expenses)	<u>(86,711)</u>
Net Income (Loss) Before Transfers	(168,288)
Other Financing Sources (Uses)	
Transfers Out	<u>(130,219)</u>
Change in Net Position	(298,507)
Net Position, <i>Beginning of year</i>	<u>(871,143)</u>
Net Position, <i>End of year</i>	<u><u>\$ (1,169,650)</u></u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Cash Flows
For the Year Ended June 30, 2018

	Building Corporation
Cash Flows From Operating Activities	
Lease Payments Received	\$ 350,013
Loan Interest and Fees Paid	(185,616)
Loan Principal Paid	<u>(135,102)</u>
Net Cash Provided (Used) by Operating Activities	<u>29,295</u>
Cash Flows From Capital and Related Financing Activities	
Payment to the School	(130,219)
Debt Issuance Costs Paid	<u>(86,787)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(217,006)</u>
Cash Flows From Investing Activities	
Investment Income Received	<u>76</u>
Net Change in Cash and Cash Equivalents	(187,635)
Cash and Cash Equivalents, <i>Beginning of year</i>	<u>232,730</u>
Cash and Cash Equivalents, <i>End of year</i>	<u><u>\$ 45,095</u></u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Net Operating Income (Loss)	\$ (81,577)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	207,123
Amortization of Loss on Debt Refunding	22,493
Changes in Assets and Liabilities	
Accrued Interest Payable	16,358
Loan Payable	<u>(135,102)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 29,295</u></u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies

The Challenge to Excellence Charter School (the School) was organized in 2002 pursuant to the Colorado Charter Schools Act to form and operate a charter school within Douglas County School District (the District). The School is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the School's more significant policies.

Reporting Entity

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

The School includes the C2E Building Corporation (the Corporation) within its reporting entity. The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for, and to make same available for use by, the School and to otherwise provide facilities, equipment and other physical plant and related support to the School. The Corporation is blended into the School's financial statements as an enterprise fund. Separate audited financial statements are not available for the Corporation.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for the governmental and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund in the fund financial statements. 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Challenge to Excellence Charter School
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Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(Continued)

The School reports the following major funds:

General Fund - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

Building Corporation - This fund is used to account for the financial activities of the Corporation, primarily related to capital assets and the related debt service.

Assets, Liabilities and Net Position/Fund Balance

Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include investments with original maturities of three months or less.

Capital Assets - Capital assets, which include land, buildings and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation.

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

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

Buildings and Improvements	20 - 30 years
Equipment	5 - 15 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Compensated Absences - Employees are allowed to use sick and personal leave, which is not available to carry over from year to year. Certified and classified staff are reimbursed \$100 and \$50 per day, respectively, for unused sick and personal leave at the end of each fiscal year. Therefore, no liability is reported in the financial statements for these compensated absences.

Challenge to Excellence Charter School
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Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

Pensions - The School participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan 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 and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

Postemployment Benefits Other Than Pensions (OPEB) - The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan 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 and deductions from the HCTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the HCTF. For this purpose, the HCTF recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Governing Council is authorized to establish a fund balance commitment through passage of a resolution and may assign fund balances to a specific purpose through an informal action.

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Risk Management

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

Note 2: Stewardship, Compliance and Accountability

Accountability

At June 30, 2018, the Corporation had a negative net position of \$1,169,650. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

Note 3: Deposits and Investments

A summary of cash and investments at June 30, 2018, follows:

Deposits	\$	712,620
Investments		1,780,922
Total	\$	2,493,542

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$	2,448,447
Restricted Cash and Investments		45,095
Total	\$	2,493,542

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2018, the School had bank deposits of \$470,704 collateralized with securities held by the financial institution's agents but not in the School's name.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 3: Deposits and Investments (Continued)

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk. The School's investment policy follows State statutes.

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

Interest Rate Risk - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations.

At June 30, 2018, the Corporation had \$45,095 invested in the Federated Treasury Obligations Fund, a money market fund rated AAAM by Standard and Poor's. The fund invests in short-term U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities.

Local Government Investment Pool - At June 30, 2018, the School had \$1,735,827 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7. Colotrust is reported at the net asset value per share, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Challenge to Excellence Charter School
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 Notes to Financial Statements
 June 30, 2018

Note 3: Deposits and Investments (Continued)

Restricted Cash and Investments

At June 30, 2018, investments of \$45,095 have been restricted by the Corporation's loan agreement for debt service.

Note 4: Capital Assets

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

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	\$ 91,964	\$ -	\$ -	\$ 91,964
Equipment	208,820	-	-	208,820
Total Capital Assets, Being Depreciated	300,784	-	-	300,784
Less Accumulated Depreciation				
Land Improvements	(18,392)	(9,196)	-	(27,588)
Equipment	(153,600)	(7,975)	-	(161,575)
Total Accumulated Depreciation	(171,992)	(17,171)	-	(189,163)
Governmental Activities Capital Assets, Net	\$ 128,792	\$ (17,171)	\$ -	\$ 111,621
Business-Type Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 1,010,419	-	-	\$ 1,010,419
<i>Capital Assets, Being Depreciated</i>				
Buildings	4,754,070	-	-	4,754,070
Building Improvements	935,915	-	-	935,915
Total Capital Assets, Being Depreciated	5,689,985	-	-	5,689,985
Less Accumulated Depreciation				
Buildings	(2,001,142)	(158,469)	-	(2,159,611)
Building Improvements	(263,559)	(48,654)	-	(312,213)
Total Capital Assets, Being Depreciated	(2,264,701)	(207,123)	-	(2,471,824)
Total Capital Assets, Being Depreciated, Net	3,425,284	(207,123)	-	3,218,161
Business-Type Activities Capital Assets, Net	\$ 4,435,703	\$ (207,123)	\$ -	\$ 4,228,580

Depreciation expense of the governmental activities was charged to the supporting services program of the School.

Challenge to Excellence Charter School
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 Notes to Financial Statements
 June 30, 2018

Note 5: Long-Term Debt

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

	<u>Balance 6/30/17</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/18</u>	<u>Due Within One Year</u>
Business-Type Activities					
2017 Building Loan	\$ 5,775,756	\$ -	\$ (135,102)	\$ 5,640,654	\$ 152,253

On June 30, 2017, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,775,756 Charter School Refunding Revenue Bonds, Series 2017. Bond proceeds were used to refund the Charter School Revenue Refunding Bonds, Series 2007. Proceeds of the refunded bonds were used to advance refund CECFA's outstanding Series 2004 Bonds, which were originally loaned to the Corporation to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the Corporation for using the facilities. The Corporation is required to make monthly loan payments to the trustee, for payment of the bonds. Interest accrues on the outstanding balance of the bonds at 3.48% per annum. Principal and interest payments are due monthly beginning August 1, 2017, with a balloon payment of \$3,970,706 due at maturity on December 1, 2027.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 152,253	\$ 196,563	\$ 348,816
2020	157,184	191,632	348,816
2021	163,350	185,466	348,816
2022	169,208	179,608	348,816
2023	175,276	173,540	348,816
2024 - 2028	<u>4,823,383</u>	<u>700,531</u>	<u>5,523,914</u>
Total	<u>\$ 5,640,654</u>	<u>\$ 1,627,340</u>	<u>\$ 7,267,994</u>

Note 6: Defined Benefit Pension Plan

General Information

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan (Continued)

General Information (Continued)

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary over three years multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2017 and 2018 was 19.65% and 20.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the year ended June 30, 2018, were \$429,218, equal to the required contributions.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 6: Defined Benefit 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 School reported a net pension liability of \$14,766,391, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2017, relative to the contributions of all participating employers. At December 31, 2017, the School's proportion was 0.0456648566%, which was an increase of 0.0013134783% from its proportion measured at December 31, 2016.

During the 2018 legislative session, the State Legislature passed Senate Bill (SB) 18-200 with the goal of eliminating the unfunded pension liability of the SDTF within the next 30 years. The significant provisions of the legislation include increased age and service requirements to receive full retirement benefits, highest average salary calculated over five years rather than three years, changes to includable employee salaries, increased contributions from employees and employers, and an annual direct distribution from the State of Colorado. The School's estimated net pension liability at June 30, 2018, had the provisions of SB 18-200 been effective was \$6,671,328.

For the year ended June 30, 2018, the School recognized pension expense of \$3,267,761. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 271,491	\$ -
Changes of assumptions and other inputs	3,770,408	23,927
Net difference between projected and actual earnings on plan investments	-	579,890
Changes in proportion	348,309	-
Contributions subsequent to the measurement date	233,991	-
Total	\$ 4,624,199	\$ 603,817

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 6: Defined Benefit Pension Plan (Continued)

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

School contributions subsequent to the measurement date of \$233,991 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2019	\$ 2,493,610
2020	1,451,799
2021	59,138
2022	<u>(218,156)</u>
Total	<u>\$ 3,786,391</u>

Actuarial Assumptions - The actuarial valuation as of December 31, 2016, determined the total pension liability using the following actuarial assumptions and other inputs.

Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate ⁽¹⁾	5.26%
Post-retirement benefit increases:	
Hired prior to 1/1/2007	2.0%
Hired after 12/31/2006	ad hoc

⁽¹⁾ *The discount rate reflected in the roll-forward calculation of the total pension liability to the measurement date was 4.78%.*

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. 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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

Challenge to Excellence Charter School
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 Notes to Financial Statements
 June 30, 2018

Note 6: Defined Benefit Pension Plan (Continued)

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

On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, which were effective on December 31, 2016. The significant changes affecting the plan included decreasing the investment rate of return assumption from 7.5% per year, compounded annually, net of investment expenses, to 7.25%, and updating mortality assumptions based on RP-2014 mortality tables.

The long-term expected rate of return on plan investments was determined using 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.

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

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

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 6: Defined Benefit Pension Plan (Continued)

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

Discount Rate - The discount rate used to measure the total pension liability was 4.78%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2017, the municipal bond index rate was 3.43%, resulting in a discount rate of 4.78%. The discount rate at the prior measurement date was 5.26%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 4.78%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (3.78%) or one percentage point higher (5.78%) than the current rate, as follows:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$ 18,652,464	\$ 14,766,391	\$ 11,599,686

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

Challenge to Excellence Charter School
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Notes to Financial Statements
June 30, 2018

Note 7: Postemployment Healthcare Benefits

General Information

Plan Description - All employees of the School are eligible to receive postemployment benefits other than pensions (OPEB) through the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the HCTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The HCTF provides a healthcare premium subsidy to eligible benefit recipients and retirees who choose to enroll. Eligibility to enroll is voluntary and includes benefit recipients, their eligible dependents and surviving spouses, among others. Eligible benefit recipients may enroll in the HCTF upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period. The health care premium subsidy is based on the benefit structure under which the member retires and the member's years of service credit.

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, and \$115 per month for benefit recipients who are over 65 years of age or who are under 65 years of age and entitled to Medicare. An additional subsidy is provided if the benefit recipient has not participated in Social Security and is not otherwise eligible for Medicare Part A. The maximum subsidy is based on 20 or more years of service. The subsidy is reduced for each year of service less than 20 years. The benefit recipient pays the remaining portion of the premium not covered by the subsidy.

Contributions - As established by Title 24, Article 51, Section 208 of the CRS, 1.02% of the School's contributions to the School Division Trust Fund (SDTF) (See Note 6) is apportioned to the HCTF. No employee contributions are required. These contribution requirements are established and may be amended by the State Legislature. The School's apportionment to the HCTF for the year ended June 30, 2018, was \$22,000, equal to the required amount.

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

At June 30, 2018, the School reported a net OPEB liability of \$337,202, representing its proportionate share of the net OPEB liability of the HCTF. The net OPEB liability was measured at December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2017.

The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2017, relative to the contributions of all participating employers. At December 31, 2017, the School's proportion was 0.0259465832%, which was an increase of 0.0007367372% from its proportion measured at December 31, 2016.

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Note 7: Postemployment Healthcare Benefits (Continued)

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

For the year ended June 30, 2018, the School recognized OPEB expense of \$27,897. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,595	\$ -
Net difference between projected and actual earnings on plan investments	-	5,641
Changes in proportion	7,984	-
Contributions subsequent to the measurement date	12,476	-
Total	\$ 22,055	\$ 5,641

School contributions subsequent to the measurement date of \$12,476 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended June 30,

2019	\$ 471
2020	471
2021	471
2022	471
2023	1,882
2024	172
Total	\$ 3,938

Actuarial Assumptions - The actuarial valuation as of December 31, 2016, determined the total OPEB liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

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Note 7: Postemployment Healthcare Benefits (Continued)

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

Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates:	
Service-based premium subsidy	0.0%
Medicare plans	5.0%
Medicare Part A premiums:	
3% for 2017, gradually rising to 4.25% in 2023	

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. 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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

Health care cost trend rates are based on published annual health care inflation surveys in conjunction with actual plan experience, building block models and heuristics developed by actuaries and administrators, and other projected trends.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, and were adopted by PERA's governing board on November 18, 2016. In addition, certain actuarial assumptions pertaining to per capita health care costs and the related trends are analyzed by PERA's actuary as needed.

The long-term expected rate of return on the HCTF investments was determined using 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.

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as presented previously in Note 6.

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Note 7: Postemployment Healthcare Benefits (Continued)

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

Discount Rate - The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate. Based on this assumption, the HCTF's fiduciary net position was projected to be available to make all projected future OPEB payments to current active and inactive employees. Therefore, the long-term expected rate of return on HCTF investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as the School's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 379,121	\$ 337,202	\$ 301,423

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the School's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, ranging from 3% to 5%, as well as the School's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability	\$ 327,924	\$ 337,202	\$ 348,376

OPEB Plan Fiduciary Net Position - Detailed information about the HCTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

Note 8: Interfund Transactions

Certain reserves held in trust for the refunded debt (see Note 5) were released from restriction. During the year ended June 30, 2018, this excess cash was transferred to the School, in the amount of \$130,219.

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Note 9: Commitments and Contingencies

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. As required by the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2018, the emergency reserve was reported as restricted fund balance in the General Fund, in the amount of \$132,000.

Note 10: Change in Accounting Principle

For the year ended June 30, 2018, the School adopted the standards of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, net position of the governmental activities at June 30, 2017, was restated to reflect the cumulative effect of adopting the standards.

Certain balances of deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2017, were not available and have not been reported in the financial statements.

	Governmental Activities
Net Position, June 30, 2017, <i>as Originally Stated</i>	\$ (5,979,421)
Deferred Outflows of Resources	11,864
Net OPEB Liability	(326,854)
Net Position, June 30, 2017, <i>as Restated</i>	\$ (6,294,411)

Required Supplementary Information

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability and Contributions
 Public Employees' Retirement Association of Colorado
 School Division Trust Fund
 June 30, 2018

	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
Proportionate Share of the Net Pension Liability					
School's Proportion of the Net Pension Liability	0.0456648566%	0.0443513783%	0.0435081376%	0.0427827980%	0.0432178520%
School's Proportionate Share of the Net Pension Liability	\$ 14,766,391	\$ 13,205,120	\$ 6,654,262	\$ 5,798,506	\$ 5,512,425
School's Covered Payroll	\$ 2,106,465	\$ 1,990,568	\$ 1,896,362	\$ 1,792,291	\$ 1,742,249
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	701%	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	44%	43%	59%	63%	64%
	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
School Contributions					
Statutorily Required Contribution	\$ 407,218	\$ 375,265	\$ 347,700	\$ 306,721	\$ 279,088
Contributions in Relation to the Statutorily Required Contribution	<u>407,218</u>	<u>(375,265)</u>	<u>(347,700)</u>	<u>(306,721)</u>	<u>(279,088)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 2,156,879	\$ 2,041,567	\$ 1,961,651	\$ 1,817,034	\$ 1,745,725
Contributions as a Percentage of Covered Payroll	18.88%	18.38%	17.72%	16.88%	15.99%

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

Challenge to Excellence Charter School
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 Required Supplementary Information
 Schedule of Proportionate Share of the Net OPEB Liability and Contributions
 Public Employees' Retirement Association of Colorado
 Health Care Trust Fund
 June 30, 2018

	12/31/17
Proportionate Share of the Net OPEB Liability	
School's Proportion of the Net OPEB Liability	0.0259465832%
School's Proportionate Share of the Net OPEB Liability	\$ 337,202
School's Covered-Employee Payroll	\$ 2,198,431
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	15%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	18%
	6/30/18
School Contributions	
Statutorily Required Contribution	\$ 22,000
Contributions in Relation to the Statutorily Required Contribution	(22,000)
Contribution Deficiency (Excess)	\$ -
School's Covered-Employee Payroll	\$ 2,245,739
Contributions as a Percentage of Covered Payroll	0.98%

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
<i>Local Sources</i>				
Per Pupil Revenue	\$ 3,409,893	\$ 3,494,188	\$ 3,516,295	\$ 22,107
District Mill Levy	259,284	271,859	260,326	(11,533)
Tuition	248,600	194,500	201,093	6,593
Student Fees and Activities	194,195	166,000	198,085	32,085
Investment Income	8,000	12,000	24,582	12,582
Other	5,000	135,000	25,857	(109,143)
Total Local Sources	<u>4,124,972</u>	<u>4,273,547</u>	<u>4,226,238</u>	<u>(47,309)</u>
<i>State Sources</i>				
Capital Construction	116,502	119,210	126,303	7,093
Grants	19,778	35,722	26,088	(9,634)
Total State Sources	<u>136,280</u>	<u>154,932</u>	<u>152,391</u>	<u>(2,541)</u>
Total Revenues	<u>4,261,252</u>	<u>4,428,479</u>	<u>4,378,629</u>	<u>(49,850)</u>
Expenditures				
Salaries	2,262,274	2,284,104	2,253,754	30,350
Employee Benefits	717,096	721,757	669,953	51,804
Purchased Professional Services	127,115	131,060	115,055	16,005
Purchased Property Services	640,969	472,130	489,946	(17,816)
Other Purchased Services	316,810	383,494	353,970	29,524
Supplies	208,388	258,388	248,420	9,968
Property	77,888	78,888	64,545	14,343
Other	19,094	98,658	6,202	92,456
Contingency	1,027,838	132,854	-	132,854
Total Expenditures	<u>5,397,472</u>	<u>4,561,333</u>	<u>4,201,845</u>	<u>359,488</u>
Excess of Revenues Over (Under) Expenditures	(1,136,220)	(132,854)	176,784	309,638
Other Financing Sources (Uses)				
Transfers In	-	-	130,219	130,219
Net Change in Fund Balance	(1,136,220)	(132,854)	307,003	439,857
Fund Balance, Beginning of year	<u>1,681,062</u>	<u>1,971,312</u>	<u>1,931,980</u>	<u>(39,332)</u>
Fund Balance, End of year	<u>\$ 544,842</u>	<u>\$ 1,838,458</u>	<u>\$ 2,238,983</u>	<u>\$ 400,525</u>

Challenge to Excellence Charter School
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Notes to Required Supplementary Information
June 30, 2018

Note 1: Schedule of Proportionate Share of the Net Pension Liability and Contributions

The Public Employees' Retirement Association of Colorado (PERA) School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2018, the total pension liability was determined by an actuarial valuation as of December 31, 2016. The following revised economic and demographic assumptions were effective as of December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

Note 2: Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

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

School management submits to the Governing Council a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Governing Council.

All appropriations lapse at fiscal year-end.