

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)

Financial Statements

June 30, 2018

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November 28, 2018



Parker Core Knowledge, Inc.
 (A Component Unit of Douglas County School District RE.1)
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Independent Auditors' Report

Board of Directors
Parker Core Knowledge, Inc.
Parker, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Parker Core Knowledge, Inc., component unit of Douglas County 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 Parker Core Knowledge, Inc., 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 Parker Core Knowledge, Inc., 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 9 to the financial statements, in the year ended June 30, 2018, the Parker Core Knowledge, Inc. 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 31, 2018



Parker Core Knowledge Charter School

Management's Discussion and Analysis Fiscal Year Ending June 30, 2018

The Management's Discussion and Analysis of Parker Core Knowledge's financial performance provides narrative overview and analysis of the financial activities of Parker Core Knowledge for the fiscal year ended June 30, 2018. Readers of this narrative are encouraged to review the Financial Statements and Notes to Financial Statements to better understand the School's financial performance.

Financial Highlights

The year ending June 30, 2018 is the twenty-fourth year of operations for Parker Core Knowledge. The Fund balance increased \$35,222 during the year, from \$2,153,152 to \$2,188,374

The operations of Parker Core Knowledge continue to be funded almost exclusively by tax revenue received under the State School Finance Act. Under the Act, the school is paid a per pupil revenue (PPR) for each child enrolled in the school on October 1st of each year. The school also receives a portion of the Mill Levy Revenues collected by Douglas County School District and from money provided for Charter School facilities from the State of Colorado. The downturn in the economy, and subsequent loss of state revenues by the State of Colorado, had an adverse effect on the PPR funding from the state for several years between 2009 and 2015 but has slowly been increasing each year since. In 2017-2018 PPR was \$7,307.

At the end of the FY 2016, the Building Corporation, which owns the facilities of Parker Core Knowledge Charter School restructured its debt and borrowed an additional \$3,000,000 to construct a new 15,000 sq./ft. building on the school's property. This new building includes seven classrooms and a new, larger school gym and was completed in time for school start-up in August of 2018. Payments on this debt total \$522,000 per year until June 2026 when the balloon payment of \$7,446,180 is due.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to Parker Core Knowledge Charter School's basic financial statements. The basic statements are comprised of four components: 1) government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements; and 4) supplementary information.

1) Government-wide Financial Statements

The government-wide financial statements report information on all activities of the school and the CKCS Building Corporation. They are designed to provide

readers with a broad overview of Parker Core Knowledge's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all Parker Core Knowledge's assets and liabilities, with the difference between the two 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 of Parker Core Knowledge is improving or deteriorating.

The Statement of Activities (Revenues and Expenses) presents information showing how Parker Core Knowledge's net position changed during the year. All changes in net position are reported as soon as the underlying event, giving rise to the change occurred, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in the statement for some items that will affect cash flows in future periods.

2) 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. Parker Core Knowledge keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of Parker Core Knowledge is a governmental fund; the CKCS Building Corporation, which is a business-type activity or proprietary fund.

Governmental Funds. Governmental funds are used to account for 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 resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating Parker Core Knowledge's near-term financing requirements.

Parker Core Knowledge maintains two individual governmental funds, the General Fund and the Activity Fund. The Activity Fund is used to record school sponsored pupil organizations and activities. These activities are self-supporting and do not receive any direct support from the general funds. However, the activity in this Fund is minimal compared to the Operating Fund so, the Operating Fund and Activity funds have been combined in the accompanying financial statements.

Proprietary Fund. The CKCS Building Corporation is considered a component unit of the Parker Core Knowledge and has one fund, the proprietary fund. Its activity is related to the assets purchased with tax-exempt financing. It is represented in the financial statements with statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows.

3) *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.

4) *Supplementary Information*

Parker Core Knowledge adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of Parker Core Knowledge's financial position. For the year ended June 30, 2018, Parker Core Knowledge's net position is a negative (14,888,337). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$23,339,874, representing Parker Core Knowledge's proportionate share of PERA's net pension liability. This is an increase of the proportionate share of \$2,809,728 over the prior year. Parker Core Knowledge adopted GASB 75 at the end of 2018, resulting in a net OPEB Liability of 532,988, representing Parker Core Knowledge's proportionate share of PERA's post-employment benefit liability.

Core Knowledge Charter School's Combined Net Position
For the Year Ended June 30, 2018 and June 30, 2017

	Governmental and Business-Type Activities <u>2017-2018</u>	Governmental and Business-Type Activities <u>2016-2017</u>
<u>Assets</u>		
Cash and Investments	\$ 2,709,450	\$ 2,840,797
Accounts Receivable	2,493	0
Restricted Cash	309,286	1,504,358
Account Receivable		0
Other Receivables		0
Prepaid Expenses	0	0
Deposits	45,833	42,713
Capital Assets, Not being Depreciated	235,020	2,631,755
Capital Assets, Net of Depreciation	<u>8,189,354</u>	<u>4,752,549</u>
Total Assets	<u>\$11,491,436</u>	<u>\$11,772,172</u>

Deferred Outflows of Resources

Pensions, Net of Accumulated Amortization	\$ 7,810,981	\$ 8,714,276
OPEB, Net of Accumulated Amortization	39,822	0
Loss on Debt Refunding, Net of Accumulated Amortization	<u>769,902</u>	<u>866,028</u>
Total Deferred Outflows of Services	<u>8,620,705</u>	<u>9,580,304</u>

Liabilities

Accounts Payable	33,193	435,229
Accrued Liabilities	255,857	200,787
Unearned Revenues	2,500	57,977
Accrued Interest Payable	26,938	27,493
Non-current Liabilities		
Due within One Year	213,094	206,102
Due in More Than One Year	9,158,477	9,354,901
Net Pension Liability	23,339,874	20,530,146
OPEB Liability	<u>532,988</u>	<u>0</u>
Total Liabilities	<u>33,562,921</u>	<u>30,812,635</u>

Deferred Inflows of Resources

Pensions, Net of Accumulated Amortization	954,398	85,299
OPEB, Net of Accumulated Amortization	<u>8,917</u>	<u>0</u>
Total Deferred Outflows of Services	<u>963,315</u>	<u>85,299</u>

Net Position

Invested in Capital Assets, net of related debt	(28,732)	(334,613)
Restricted for Debt Service	282,348	278,248
Restricted for Building Repair		0
Restricted for Full-Day Kindergarten	0	22,673
Restricted for Emergencies	200,000	189,000
Unrestricted	<u>(14,867,711)</u>	<u>(9,700,766)</u>
Total Net Position	<u>(\$14,414,095)</u>	<u>(\$9,545,458)</u>

Core Knowledge Charter School Change in Combined Net Assets
For the Year Ended June 30, 2018 and June 30, 2017

	Governmental and Business-Type <u>Activities</u> 2017-2018	Governmental and Business-Type <u>Activities</u> 2016-2017
Charges for Services	\$1,095,783	\$1,040,402
Grants and Contributions	14,278	210,025

Per Pupil Operating Revenue	4,905,600	4,694,648
Mill Levy Override	363,360	361,791
State Capital Construction Program	176,568	183,864
Contributions not restricted to		
Specific Programs	61,221	7,788
Investment Income	36,090	29,525
Other	<u>37</u>	<u>7,320</u>
 Total General Revenue	 <u>6,652,937</u>	 <u>6,535,363</u>
 Expenses:		
Instruction	7,526,159	6,775,699
Supporting Services	2,824,516	2,638,787
Building Corporation	<u>680,947</u>	<u>465,123</u>
Total Expenses	<u>11,031,622</u>	<u>9,879,609</u>
 Increase (decrease) in Net Position	 (4,378,685)	 (3,344,246)
 Beginning Net Position	 (9,545,458)	 (6,201,212)
Beginning Fund Balance restatement for OPEB Liability	<u>(489,952)</u>	<u>0</u>
 Ending Net Position	 <u>(\$14,414,095)</u>	 <u>(\$9,545,458)</u>

Parker Core Knowledge's net position is a negative \$14,414,095. The negative balance is primarily due to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$23,339,874 which represents Parker Core Knowledge's proportionate share of PERA's net pension liability, GASB 75, resulting in a net OPEB liability of \$532,988, and Loss on refunding of \$769,902.

Financial Analysis of the Funds

Governmental Funds

The focus of Parker Core Knowledge's Governmental Fund Financial Statement is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the school's operating requirements. In particular, the 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.

The General Fund is the major operating fund of the School and reflects the day-to-day operation of the school. At the end of the current fiscal year, the school's operating fund reported an ending fund balance of \$2,188,374, an increase of

\$35,222. During the previous year, the fund balance increased \$252,627. The decrease from the previous year was primarily due to increased expenses for the resurfacing of the school playfield.

Proprietary Fund

The Proprietary Fund includes the activities of the Building Corporation. Its purpose consists entirely of holding title to the School's facilities and debt service. The School is obligated under a lease agreement to make monthly payments to the Building Corporation for use of the facilities. These payments from the school flow through the Corporation to service the long-term bond debt. These rent payments are then held in restricted cash accounts to service the debt. The only other revenue for the Corporation is the investment earnings of \$7,201.

The school paid for renovations to the property owned by the Building Corporation. These renovations included installation of a new field and some Middle School classroom renovations. These were expenses in the school's financial statements and are shown as a capital contribution in the financial statements of the Building Corporation.

Because of the limited activity of the Building Corporation, most of its cash is restricted for loan repayment purposes. At the end of 2018, \$282,348 was being held for debt service.

General Fund Budgetary Highlights

The School approves a budget in May based on enrollment projections for the following school year. The budget is then revised in December after the official student enrollment count is taken. The 85% of the school's budget is spent on Salaries, Benefits and Property Services. Therefore, any large expenditures must come from accumulated funds from prior years. For the school year 2017-18 the school budgeted for net expenditures of (\$198,000) expecting to take the \$198,000 out of prior year funds for the installation of the new artificial turf field. The school had lower than expected budgeted expenses for salaries and expenditures so was able to take the payment for the new field out of current year revenues. The actuals for 2017-2018 show net revenues of \$35,222.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2018, the CKCS Building Corporation owns land and improvements, net of depreciation of \$8,420,439. This investment in capital assets includes the property and building for one campus. \$3,436,933 was spent on capital assets during the year-ended June 30, 2018. As discussed earlier, this was the completion of the construction of the second building on the campus which was begun the previous year.

Long-Term Debt. In April 2004, the CKCS Building Corporation obtained bond financing from the Colorado Educational and Cultural Facilities Authority (CECFA). These bonds, totaling, \$4,805,000 were used to refund the Series 1999 bonds originally issued to construct the School's facilities plus \$774,000 to finance improvements to the facilities. These bonds accrued interest at rates ranging from 25% to 5.125%. In October 2010, CEFCA issued \$2,435,000 in bonds to finance the constructions of an addition to the School's existing facilities. These new bonds accrued interest at rates ranging from 5% to 6%. In June 2016, CECFA issued \$9,605,000 Charter School Refunding and Improvement Revenue Notes, Series 2016. Proceeds were used to defease the outstanding Charter School Bonds discussed above and provide additional funds for construction of an additional building on the current school site. The new loan carries an interest rate of 3.5%. The new loan requires monthly payments of principal and interest with a balloon payment of \$7,446,179 due July 1, 2026. The school makes lease payments for use of the facilities, which the Building Corporations uses to make the required principal and interest payments on this loan. These transactions flow through the Colorado State Intercept Program, which requires the School District to withhold a portion of the Per Pupil Funding and transfer the funds directly to the Trustee who, in turn, makes the principal and interest payments.

Economic Factors and Next Year's Budget

State funding is expected to increase in 2018-19 as the economy strengthens. Per Pupil revenue is anticipated to increase 6% for the 2018-2019 school year due to formula increases (primarily inflation), and the Legislature's continuing effort to buy down the "negative factor". The negative factor is the difference between what public school funding would have been due to Legislative formula and the actual funding that was provided to public schools due to the state level funding cuts. Capital Construction is not expected to increase and will probably be less because of the increased number of charter school students in the State of Colorado.

The school raised budgeted salaries in 2018-19 because of the expected increased revenue. There are also be some major expenses for some building maintenance costs expected in 2018-19, including a new roof and possibly some building renovations. These expenses will either be paid from revenue received from a new bond issue being voted on in November of 2018 or the money will come from reserves. The

Requests for Information

The financial report is designed to provide a general overview of Parker Core Knowledge's finances for those with an interest in Parker Core Knowledge. Questions concerning any information provided in this report or request for additional information should be addressed to:

Business Manager
Parker Core Knowledge
11661 N. Pine Drive
Parker CO 80138

Basic Financial Statements

Parker Core Knowledge, Inc.
(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	\$ 2,468,973	\$ 240,477	\$ 2,709,450
Restricted Cash and Investments	-	309,286	309,286
Accounts Receivable	2,493	-	2,493
Deposits	8,458	37,375	45,833
Capital Assets, <i>Not Being Depreciated</i>	-	235,020	235,020
Capital Assets, <i>Net of Accumulated Depreciation</i>	21,915	8,167,439	8,189,354
Total Assets	<u>2,501,839</u>	<u>8,989,597</u>	<u>11,491,436</u>
Deferred Outflows of Resources			
Pensions, <i>Net of Accumulated Amortization</i>	7,810,981	-	7,810,981
OPEB, <i>Net of Accumulated Amortization</i>	39,822	-	39,822
Loss on Debt Refunding, <i>Net of Accumulated Amortization</i>	-	769,902	769,902
Total Deferred Outflows of Resources	<u>7,850,803</u>	<u>769,902</u>	<u>8,620,705</u>
Liabilities			
Accounts Payable	33,193	-	33,193
Accrued Liabilities	255,857	-	255,857
Unearned Revenues	2,500	-	2,500
Accrued Interest Payable	-	26,938	26,938
Noncurrent Liabilities			
Due Within One Year	15,908	197,186	213,094
Due in More Than One Year	95,280	9,063,197	9,158,477
Net Pension Liability	23,339,874	-	23,339,874
Net OPEB Liability	532,988	-	532,988
Total Liabilities	<u>24,275,600</u>	<u>9,287,321</u>	<u>33,562,921</u>
Deferred Inflows of Resources			
Pensions, <i>Net of Accumulated Amortization</i>	954,398	-	954,398
OPEB, <i>Net of Accumulated Amortization</i>	8,917	-	8,917
Total Deferred Inflows of Resources	<u>963,315</u>	<u>-</u>	<u>963,315</u>
Net Position			
Net Investment in Capital Assets	21,915	(50,647)	(28,732)
Restricted for:			
Debt Service	-	282,348	282,348
Emergencies	200,000	-	200,000
Unrestricted	<u>(15,108,188)</u>	<u>240,477</u>	<u>(14,867,711)</u>
Total Net Position	<u>\$ (14,886,273)</u>	<u>\$ 472,178</u>	<u>\$ (14,414,095)</u>

See Notes to Financial Statements.

Parker Core Knowledge, Inc.
(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 (Expense) Revenue 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	\$ 7,526,159	\$ 1,034,947	\$ 14,278	\$ (6,476,934)	\$ -	\$ (6,476,934)
Supporting Services	2,824,516	60,836	-	(2,763,680)	-	(2,763,680)
Total Governmental Activities	10,350,675	1,095,783	14,278	(9,240,614)	-	(9,240,614)
<i>Business-Type Activities</i>						
Building Corporation	680,947	-	-	-	(680,947)	(680,947)
Total Primary Government	\$ 11,031,622	\$ 1,095,783	\$ 14,278	(9,240,614)	(680,947)	(9,921,561)
General Revenues						
Per Pupil Revenue				4,905,600	-	4,905,600
District Mill Levy				363,360	-	363,360
Capital Construction				176,568	-	176,568
Contributions not Restricted to						
Specific Programs				61,221	-	61,221
Investment Income				28,889	7,201	36,090
Other				37	-	37
Transfers				(855,108)	855,108	-
Total General Revenues and Transfers				4,680,567	862,309	5,542,876
Change in Net Position				(4,560,047)	181,362	(4,378,685)
Net Position, Beginning of year				(10,326,226)	290,816	(10,035,410)
Net Position, End of year				\$ (14,886,273)	\$ 472,178	\$ (14,414,095)

Parker Core Knowledge, Inc.
 (A Component Unit of Douglas County School District RE.1)
 Balance Sheet
 Governmental Fund
 June 30, 2018

	General
Assets	
Cash and Investments	\$ 2,468,973
Accounts Receivable	2,493
Deposits	8,458
Total Assets	\$ 2,479,924
Liabilities and Fund Balance	
<i>Liabilities</i>	
Accounts Payable	\$ 33,193
Accrued Salaries and Benefits	255,857
Unearned Revenues	2,500
Total Liabilities	291,550
<i>Fund Balance</i>	
Nonspendable Prepaid Expenditures	8,458
Restricted for Emergencies	200,000
Unrestricted, Unassigned	1,979,916
Total Fund Balance	2,188,374
Total Liabilities and Fund Balance	\$ 2,479,924

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

Total Fund Balance of the Governmental Fund	\$ 2,188,374
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	21,915
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds:	
Accrued compensated absences	(111,188)
Net pension liability	(23,339,874)
Pension-related deferred outflows of resources	7,810,981
Pension-related deferred inflows of resources	(954,398)
Net OPEB liability	(532,988)
OPEB-related deferred outflows of resources	39,822
OPEB-related deferred inflows of resources	(8,917)
Total Net Position of Governmental Activities	\$ (14,886,273)

Parker Core Knowledge, Inc.
(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	
Local Sources	\$ 6,454,890
State Sources	190,846
Total Revenues	6,645,736
Expenditures	
Instruction	3,899,337
Supporting Services	2,711,429
Total Expenditures	6,610,766
Excess of Revenues Over Expenditures	34,970
Other Financing Sources	
Transfers In	252
Net Change in Fund Balance	35,222
Fund Balance, <i>Beginning of year</i>	2,153,152
Fund Balance, <i>End of year</i>	\$ 2,188,374

Parker Core Knowledge, Inc.

(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	\$	35,222
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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:

Capital outlay	6,280
Depreciation expense	(6,408)
Disposals	-

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:

Accrued compensated absences	(888)
Net pension liability	(2,809,728)
Pension-related deferred outflows of resources	(903,295)
Pension-related deferred inflows of resources	(869,099)
Net OPEB liability	(24,824)
OPEB-related deferred outflows of resources	21,610
OPEB-related deferred inflows of resources	(8,917)

Change in Net Position of Governmental Activities	\$	<u>(4,560,047)</u>
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Parker Core Knowledge, Inc.
 (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>	
Cash and Investments	\$ 240,477
Restricted Cash and Investments	309,286
Deposits	37,375
Total Current Assets	587,138
<i>Noncurrent Assets</i>	
Capital Assets, <i>Not Being Depreciated</i>	235,020
Capital Assets, <i>Net of Accumulated Depreciation</i>	8,167,439
Total Noncurrent Assets	8,402,459
Total Assets	8,989,597
Deferred Outflows of Resources	
Loss on Debt Refunding, <i>Net of Accumulated Amortization</i>	769,902
Liabilities	
<i>Current Liabilities</i>	
Accrued Interest Payable	26,938
Loan Payable, <i>Current Portion</i>	197,186
Total Current Liabilities	224,124
<i>Noncurrent Liabilities</i>	
Loan Payable	9,063,197
Total Liabilities	9,287,321
Net Position	
Net Investment in Capital Assets	(50,647)
Restricted for Debt Service	282,348
Unrestricted	240,477
Total Net Position	\$ 472,178

See Notes to Financial Statements.

Parker Core Knowledge, Inc.
(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>521,760</u>
Total Operating Revenues	<u>521,760</u>
Operating Expenses	
Purchased Services	221
Depreciation	253,716
Debt Service	
Interest	<u>427,010</u>
Total Operating Expenses	<u>680,947</u>
Net Operating Loss	(159,187)
Nonoperating Revenues	
Investment Income	<u>7,201</u>
Net Loss Before Capital Contributions and Transfers	(151,986)
Capital Contributions and Transfers	
Capital Contributions	333,600
Transfers out	<u>(252)</u>
Change in Net Position	181,362
Net Position, <i>Beginning of year</i>	<u>290,816</u>
Net Position, <i>End of year</i>	<u><u>\$ 472,178</u></u>

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
 Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2018

	<u>Building Corporation</u>
Cash Flows From Operating Activities	
Lease Payments Received	\$ 521,760
Cash Paid to Vendors	(221)
Loan Principal Paid	(190,320)
Loan Interest Paid	<u>(331,439)</u>
Net Cash Used by Operating Activities	<u>(220)</u>
Cash Flows From Capital and Related Financing Activities	
Construction and Acquisition of Capital Assets	<u>(1,330,548)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,330,548)</u>
Cash Flows From Investing Activities	
Investment Income Received	7,201
Excess Earnings Paid to the School	<u>(252)</u>
Net Cash Used by Investing Activities	<u>6,949</u>
Net Change in Cash and Cash Equivalents	(1,323,819)
Cash and Cash Equivalents, <i>Beginning of year</i>	<u>1,873,582</u>
Cash and Cash Equivalents, <i>End of year</i>	<u><u>\$ 549,763</u></u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities	
Net Operating Loss	\$ (159,187)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	253,716
Amortization of Loss on Debt Refunding	96,126
Changes in Assets and Liabilities	
Accrued Interest Payable	(555)
Loan Payable	<u>(190,320)</u>
Net Cash Used by Operating Activities	<u><u>\$ (220)</u></u>
Noncash Capital Transactions	
Contributed Capital Assets	<u><u>\$ 333,600</u></u>

See Notes to Financial Statements.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies

Parker Core Knowledge, Inc. (the School) was formed pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the District).

The accounting policies of the School conform to generally accepted accounting principles (GAAP) 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 the organization has the potential to provide benefits to, or impose financial burdens on, the School.

The School includes the Core Knowledge Charter School Building Corporation (the Corporation) within its reporting entity. The Corporation was formed to hold title to real and personal property for use by the School and to provide facilities, equipment and other property and related support to the School. The Corporation is blended into the School's financial statements as an enterprise fund. Separate audited financial statements for the Corporation are not available.

The School is a component unit of the District. The School's charter is 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.

Parker Core Knowledge, Inc.
(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*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for the governmental fund and the proprietary fund. 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 are the proprietary 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, not to exceed 60 days. 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, as well as expenditures related to compensated absences, 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 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.

Parker Core Knowledge, Inc.
(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)

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

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.

The School reports the following major governmental fund:

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.

The School reports one major proprietary fund, as follows:

Building Corporation - This fund is used to account for the financial transactions 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.

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

Deposits - The Corporation has provided construction-related deposits, which are expected to be returned upon completion of the construction project.

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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the applicable statement of net position. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Land Improvements	15 years
Buildings and Improvements	7 - 45 years
Equipment	7 - 15 years

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

Parker Core Knowledge, Inc.
(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)

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

Compensated Absences - Employees of the School are allowed to accumulate up to 120 hours of unused personal and sick leave. Upon termination of employment from the School, an employee will be compensated for all unused leave at the rate of \$100 per day. A long-term liability has been reported in the government-wide financial statements for these accrued compensated absences. This liability is expected to be liquidated with resources of the General Fund.

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 Board of Directors 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.

Parker Core Knowledge, Inc.
(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)

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

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.

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 purchases commercial insurance for these risks of loss.

Note 2: Cash and Investments

At June 30, 2018, the School and the Corporation had the following cash and investments:

Cash on Hand	\$ 99
Deposits	480,034
Investments	2,538,603
Total	<u>\$ 3,018,736</u>

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

Cash and Investments	\$ 2,709,450
Restricted Cash and Investments	309,286
Total	<u>\$ 3,018,736</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2018, the School had bank deposits of \$66,653 collateralized with securities held by the financial institution's agent, but not in the School's name. The Corporation had uninsured, uncollateralized deposits of \$240,477.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 2: Cash and Investments (Continued)

Investments

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

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

Interest Rate Risk - State statutes generally limit investments to an original maturity of 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 certain investments to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment.

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

Local Government Investment Pool - At June 30, 2018, the School and the Corporation had \$2,229,317 and \$309,286, respectively, invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7. CSAFE is measured at the net asset value per share, with each share valued at \$1. CSAFE is rated AAAM by Standard and Poor's. Investments of CSAFE 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.

Restricted Cash and Investments

Cash and investments of \$309,286 have been restricted by the Corporation's loan agreement for future debt service.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 3: Capital Assets

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

	<u>Balance 6/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/18</u>
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$ 43,907	\$ 6,280	\$ -	\$ 50,187
Accumulated Depreciation	<u>(21,864)</u>	<u>(6,408)</u>	<u>-</u>	<u>(28,272)</u>
Governmental Activities Capital Assets, <i>net</i>	<u>\$ 22,043</u>	<u>\$ (128)</u>	<u>\$ -</u>	<u>\$ 21,915</u>
Business-Type Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 235,020	\$ -	\$ -	\$ 235,020
Construction in Progress	<u>2,396,735</u>	<u>960,314</u>	<u>(3,357,049)</u>	<u>-</u>
Total Capital Assets, <i>Not Being Depreciated</i>	<u>2,631,755</u>	<u>960,314</u>	<u>(3,357,049)</u>	<u>235,020</u>
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	113,899	262,400	-	376,299
Buildings and Improvements	6,297,303	3,420,449	-	9,717,752
Equipment	<u>32,464</u>	<u>7,800</u>	<u>-</u>	<u>40,264</u>
Total Capital Assets, <i>Being Depreciated</i>	<u>6,443,666</u>	<u>3,690,649</u>	<u>-</u>	<u>10,134,315</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(45,558)	(27,273)	-	(72,831)
Buildings and Improvements	(1,642,735)	(221,518)	-	(1,864,253)
Equipment	<u>(24,867)</u>	<u>(4,925)</u>	<u>-</u>	<u>(29,792)</u>
Total Accumulated Depreciation	<u>(1,713,160)</u>	<u>(253,716)</u>	<u>-</u>	<u>(1,966,876)</u>
Total Capital Assets, <i>Being Depreciated, net</i>	<u>4,730,506</u>	<u>3,436,933</u>	<u>-</u>	<u>8,167,439</u>
Business-Type Activities Capital Assets, <i>net</i>	<u>\$ 7,362,261</u>	<u>\$ 4,397,247</u>	<u>\$ (3,357,049)</u>	<u>\$ 8,402,459</u>

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

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 4: 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>
Governmental Activities					
Compensated Absences	\$ 110,300	\$ 16,669	\$ (15,781)	\$ 111,188	\$ 15,908
Business-Type Activities					
2016 Loan	\$ 9,450,703	\$ -	\$ (190,320)	\$ 9,260,383	\$ 197,186

On June 27, 2016, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$9,605,000 Charter School Refunding and Improvement Revenue Notes, Series 2016. Proceeds were used to refund the outstanding Charter School Revenue Refunding and Improvement Bonds, Series 2004, and the Charter School Revenue Bonds, Series 2010, and to provide \$3,091,498 for new construction. Proceeds of the refunded bonds were loaned to the Corporation to construct the School's educational facilities.

The School is obligated under a lease agreement to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the notes. Interest accrues on the outstanding balance of the notes at 3.5% per annum. Monthly principal and interest payments are due beginning August 1, 2017, with a balloon payment of \$7,446,179 due on July 1, 2026. Future debt service payments are as follows.

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 197,185	\$ 324,574	\$ 521,759
2020	203,424	318,336	521,760
2021	211,635	310,125	521,760
2022	219,268	302,491	521,759
2023	227,177	294,583	521,760
2024 - 2027	<u>8,201,694</u>	<u>855,954</u>	<u>9,057,648</u>
Total	<u>\$ 9,260,383</u>	<u>\$ 2,406,063</u>	<u>\$ 11,666,446</u>

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 5: 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.

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.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 5: Defined Benefit Pension Plan (Continued)

General Information (Continued)

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 2018 and 2017 was 20.15% and 19.65% 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 6). The School's contributions to the SDTF for the year ended June 30, 2018, were \$668,700, equal to the required contributions.

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 \$23,339,874, 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 0.0721782281%, which was an increase of 0.0032246511% 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 \$10,544,753.

For the year ended June 30, 2018, the School recognized pension expense of \$5,607,118. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 5: Defined Benefit Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 429,121	\$ -
Changes of assumptions and other inputs	5,959,536	37,819
Net difference between projected and actual earnings on plan investments	-	916,579
Changes in proportion	1,092,144	-
Contributions subsequent to the measurement date	<u>330,180</u>	<u>-</u>
Total	<u>\$ 7,810,981</u>	<u>\$ 954,398</u>

School contributions subsequent to the measurement date of \$330,180 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	\$ 4,254,408
2020	2,482,226
2021	134,590
2022	<u>(334,821)</u>
Total	<u>\$ 6,536,403</u>

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

Parker Core Knowledge, Inc.
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 5: Defined Benefit Pension Plan (Continued)

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

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

¹The 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.

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.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2018

Note 5: Defined Benefit Pension Plan (Continued)

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

The 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>	

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%.

Parker Core Knowledge, Inc.
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 5: Defined Benefit Pension Plan (Continued)

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

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	\$ 29,482,230	\$ 23,339,874	\$ 18,334,555

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.

Note 6: 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.

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Note 6: Postemployment Healthcare Benefits

General Information *(Continued)*

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 5) 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 \$34,263, 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 \$532,988, 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 0.0410116684%, which was an increase of 0.0018176450% from its proportion measured at December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$45,484. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Parker Core Knowledge, Inc.
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 Notes to Financial Statements
 June 30, 2018

Note 6: Postemployment Healthcare Benefits (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,521	\$ -
Net difference between projected and actual earnings on plan investments	-	8,917
Changes in proportion	19,696	-
Contributions subsequent to the measurement date	17,605	-
Total	\$ 39,822	\$ 8,917

School contributions subsequent to the measurement date of \$17,605 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	\$ 2,136
2020	2,136
2021	2,136
2022	2,136
2023	4,365
2024	391
Total	\$ 13,300

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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 Notes to Financial Statements
 June 30, 2018

Note 6: 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:	

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 5.

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 Notes to Financial Statements
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Note 6: 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	\$ 599,246	\$ 532,988	\$ 476,435

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	\$ 518,323	\$ 532,988	\$ 550,650

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.

Parker Core Knowledge, Inc.
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Notes to Financial Statements
June 30, 2018

Note 7: Interfund Transactions

During the year ended June 30, 2017, the Corporation's trustee districted excess debt service cash of \$252 to the School.

Note 8: Commitments and Contingencies

Claims and Judgments

The School participates in a number of federal, state, and local 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. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2018, this reserve was reported as restricted fund balance in the General Fund, in the amount of \$200,000.

Note 9: 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.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2018

Note 9: Change in Accounting Principle (Continued)

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, as <i>Originally Stated</i>	\$ (9,836,274)
Deferred Outflows of Resources	18,212
Net OPEB Liability	(508,164)
Net Position, June 30, 2017, as <i>Restated</i>	\$ (10,326,226)

Required Supplementary Information

Parker Core Knowledge, Inc.
(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	0.0443513783%	0.0689535770%	0.0634105901%	0.0611253162%	0.0570963389%
School's Proportionate Share of the Net Pension Liability	\$ 23,339,874	\$ 20,530,146	\$ 9,698,202	\$ 8,284,534	\$ 7,282,623
School's Covered Payroll	\$ 3,329,518	\$ 3,094,759	\$ 2,763,420	\$ 2,560,712	\$ 2,301,735
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	\$ 634,437	\$ 595,090	\$ 520,709	\$ 446,317	\$ 398,247
Contributions in Relation to the Statutorily Required Contribution	<u>(634,437)</u>	<u>(595,090)</u>	<u>(520,709)</u>	<u>(446,317)</u>	<u>(398,247)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 3,359,158	\$ 2,360,708	\$ 2,950,423	\$ 2,625,539	\$ 2,195,467
Contributions as a Percentage of Covered Payroll	18.89%	25.21%	17.65%	17.00%	18.14%

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.

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE. 1)
 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	0.0410116684%
School's Proportionate Share of the Net OPEB Liability	\$ 532,988
School's Covered-Employee Payroll	\$ 3,329,518
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	18%
	6/30/18
School Contributions	
Statutorily Required Contribution	\$ 34,263
Contributions in Relation to the Statutorily Required Contribution	(34,263)
Contribution Deficiency (Excess)	\$ -
School's Covered-Employee Payroll	\$ 3,436,378
Contributions as a Percentage of Covered-Employee Payroll	1.00%

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.

Parker Core Knowledge, Inc.
(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	\$ 4,847,986	\$ 4,720,546	\$ 4,905,600	\$ 185,054
District Mill Levy	363,374	366,465	363,360	(3,105)
Tuition and Fees	892,050	839,223	1,034,947	195,724
Contributions and Fundraising	-	-	61,221	61,221
Rental Income	-	-	-	-
Investment Income	12,100	7,800	28,889	21,089
Other	141,850	287,650	60,873	(226,777)
<i>State Sources</i>				
Capital Construction Grants	187,213	193,269	176,568	(16,701)
	-	-	14,278	14,278
Total Revenues	<u>6,444,573</u>	<u>6,414,953</u>	<u>6,645,736</u>	<u>230,783</u>
Expenditures				
Salaries	3,510,131	3,366,900	3,436,378	(69,478)
Employee Benefits	1,143,932	1,122,028	1,096,694	25,334
Purchased Services	1,248,144	1,149,569	1,262,825	(113,256)
Supplies	355,850	419,642	371,849	47,793
Property	82,000	299,700	384,185	(84,485)
Other	17,700	24,840	58,835	(33,995)
Contingency	2,032,266	1,893,828	-	1,893,828
Total Expenditures	<u>8,390,023</u>	<u>8,276,507</u>	<u>6,610,766</u>	<u>1,665,741</u>
Excess of Revenues Over Expenditures	(1,945,450)	(1,861,554)	34,970	1,896,524
Other Financing Sources				
Transfers In	(13,200)	7,923	252	(7,671)
Net Change in Fund Balance	(1,958,650)	(1,853,631)	35,222	1,888,853
Fund Balance, Beginning of year	<u>1,958,650</u>	<u>1,853,631</u>	<u>2,153,152</u>	<u>299,521</u>
Fund Balance, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,188,374</u>	<u>\$ 2,188,374</u>

Parker Core Knowledge, Inc.
(A Component Unit of Douglas County School District RE.1)
Notes to Required Supplemental 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

Budgets are required by State statutes for all funds, and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School adheres to the following procedures to establish the budgetary information reflected in the financial statements.

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