

SOUTHWEST OPEN SCHOOL

Independent Accountants' Reports
and
Basic Financial Statements

June 30, 2018

SOUTHWEST OPEN SCHOOL

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June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Southwest Open School
Cortez, Colorado 81321

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southwest Open School, component unit of Montezuma County (Cortez) 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 School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 of 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, each major fund, and the aggregate fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of School Pension Contributions, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of School OPEB Contributions and Schedule of the School's Proportionate Share of the Net OPEB Liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1 basic financial statements. The Capital Project Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Capital Projects Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Capital Project Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read "Majors and Haley P.C.", written in a cursive style.

Majors and Haley, P.C.
October 29, 2018

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Southwest Open School, Colorado ("School") financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2018. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The School's net position decreased by \$555,089. This decrease was solely the result of the School's share of PERA's pension expense which totaled \$715,213.
- The School's total revenue was \$1,533,477, which is a decrease of \$24,951 from \$1,558,428 in the prior year.
 - General revenues (primarily the per pupil charter school allocation of \$989,459) accounted for \$1,071,182 in revenue, or 69.9% of all revenues. Program specific revenues in the form of grants accounted for \$462,295, or the remaining 30.1%.
- The School incurred \$2,088,566 in expenses which is a decrease of \$509,165 from \$2,597,731 in the prior year.
- - The general revenues of \$1,071,182 were adequate to cover all but \$555,089 of the \$1,626,271 in expenditures that were not offset by program specific revenues.
- The General Fund reported a \$26,628 increase in fund balance from \$757,634 in the prior year to \$784,262. This is a 3.5% increase.
 - General Fund revenues decreased \$1,411 from \$1,111,448 in the prior year to \$1,110,037 for a .13% decrease.
 - General Fund expenditures increased \$38,461 from \$1,044,948 in the prior year to \$1,083,409 for a 3.7% increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. Management's Discussion and Analysis is intended to serve as an introduction to the School's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

- School-wide financial statements.
- Fund financial statements.
- Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

School-wide Financial Statements

The School-wide financial statements are designed to provide the reader of the School's Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The school-wide financial statements include the Statement of Net Position and the Statement of Activities.

- The Statement of Net Position presents information about all of the School's assets, liabilities and deferred inflows, with the difference reported as net position.
- The Statement of Activities presents information showing how the net position of the School changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all of the revenues and expenses are taken into account regardless of when cash is received or paid.

The School-wide financial statements are one way to measure the School's financial health, or financial position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the School's overall health, you need to consider additional non-financial factors such as changes in the School's student counts, and the condition of school facilities.

In the School-wide financial statements, the School's activities are presented in the following categories:

- **Governmental activities** – All of the School's basic services are included here, such as instruction, students, operations and maintenance, and administration. These activities are financed mainly through general revenues (per pupil charter school allocation from Montezuma County (Cortez) School District RE-1 and Public Land monies).

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by state law. However, the School establishes other funds to help it manage and control its finances to achieve certain results.

The School uses one type of fund:

- **Governmental funds** - All of the School's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the year ended June 30, 2018 the School's liabilities and deferred inflows were more than its assets and deferred outflows by \$2,213,486. The negative balance is due to the implementation of GASB 68 and 75, resulting in a net pension liability of \$5,138,764 and a net OPEB liability of \$117,348 representing its proportionate share of the state retirement system plan. Current year activities decreased the net position by \$555,089. \$45,000 of the total net position is restricted for emergencies required to comply with the Tabor amendment.

The following table provides a summary of the Statement of Net Position for governmental activities as of June 30, 2018 and 2017.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

Table 1

Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	2018	2017
Assets		
Current assets	\$ 1,283,651	\$ 1,343,333
Capital assets, net of depreciation	611,896	614,307
Total assets	1,895,547	1,957,640
Deferred Outflows of Resources	1,480,116	2,032,730
Liabilities		
Current liabilities	120,943	192,601
Noncurrent liabilities	5,256,112	5,304,608
Total liabilities	5,377,055	5,497,209
Deferred Inflows of Resources	212,094	23,968
Net Position		
Invested in capital asset	611,896	614,307
Restricted for TABOR	45,000	45,000
Unrestricted	(2,780,382)	(2,190,114)
Total net position	<u>\$ (2,123,486)</u>	<u>\$ (1,530,807)</u>

At the close of the most recent fiscal year current assets comprised \$1,283,651 (67.7%) of the School's assets. The investments in capital assets, less depreciation was \$611,896. There was a decrease in total assets from \$1,957,640 in the prior year to \$1,895,547. Accrued wages and benefits represent 96.4% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other School employees' work nine or ten months of the year, but are paid over a full twelve months. Current liabilities decreased from \$192,601 in the prior year to \$120,943. Deferred outflows of resources net of deferred inflows of resources decreased \$740,740.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

The following table provides a summary of Changes Net Position for governmental activities in fiscal year 2018 and 2017.

Table 2
Comparative Summary of Changes in Net Position
For the Year Ending June 30

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Operating grants and contributions	\$ 427,082	\$ 425,536
Capital grants and contributions	35,213	39,983
General revenues		
Per pupil charter school allocation	989,459	1,039,585
Impact Aid and Public lands	44,790	34,202
Other	36,933	19,122
Total revenues	1,533,477	1,558,428
Expenses		
Instruction	1,086,928	1,242,748
Students	278,169	316,623
Instructional staff	11,822	47,686
General administration	44,084	39,930
School administration	409,530	664,262
Business	111,649	139,096
Operations and maintenance of plant	78,892	68,061
Student transportation	9,941	16,142
Central	25,017	29,607
Unallocated depreciation	32,534	33,576
Total expenses	2,088,566	2,597,731
Increase (decrease) in net position	\$ (555,089)	\$ (1,039,303)

SOUTHWEST OPEN SCHOOL

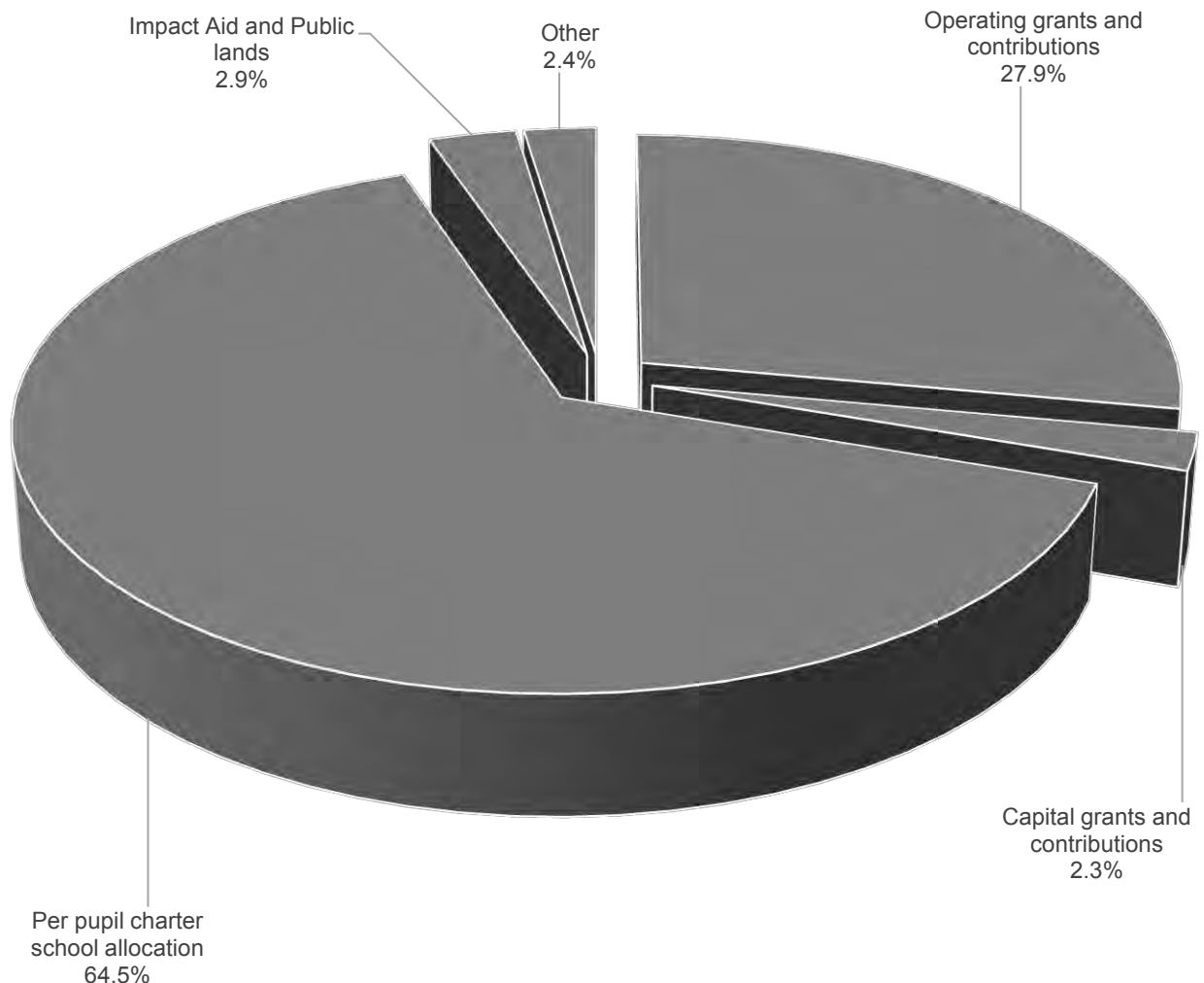
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

Per pupil charter school allocation accounted for most of the School's total revenue, contributing 64.5 percent. Another 30.2 percent came from state and federal grants and the remainder from miscellaneous sources. See Table 3.

The School's expenses are predominately related to instruction at 52 percent. Students and instructional staff was 3.9%, administration and business accounted for 27.1 percent and operations and maintenance of plant made up 3.8%. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2018

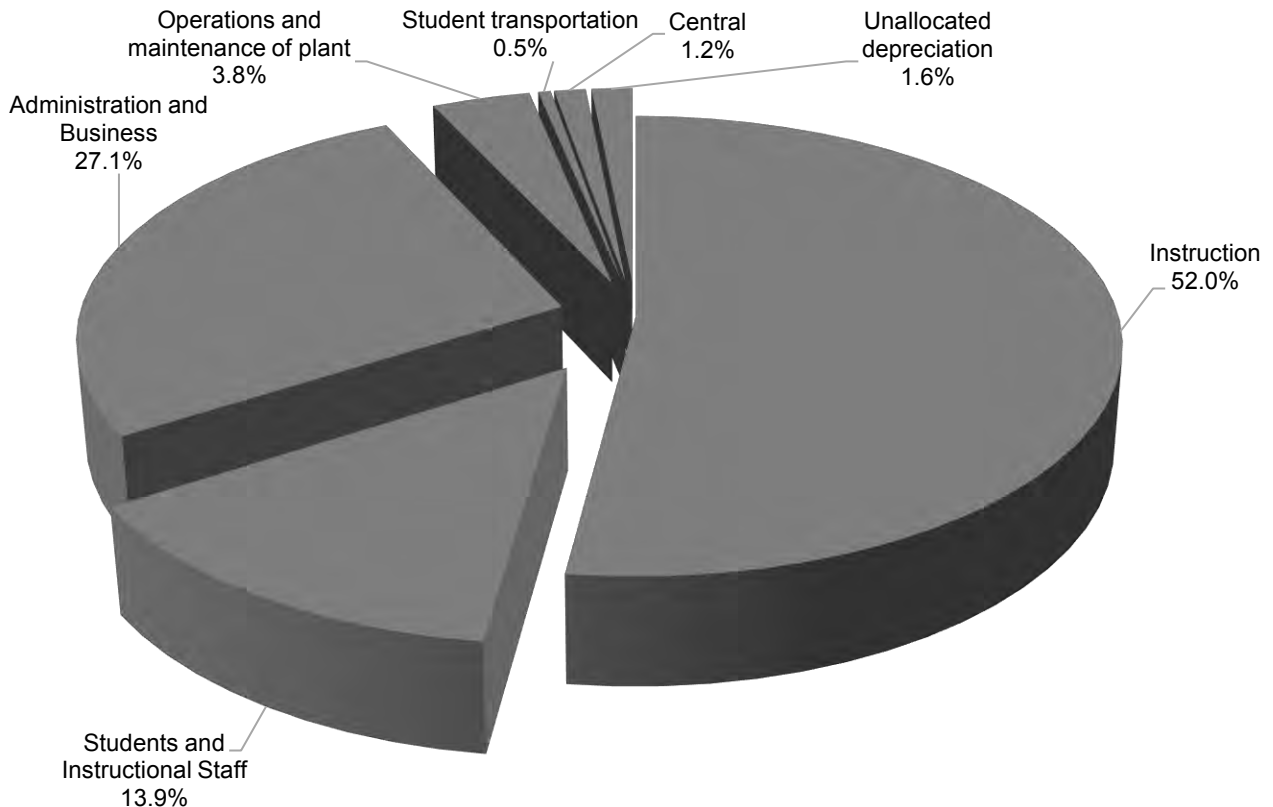


SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

Table 4
Expenses for Fiscal Year 2018



Governmental Activities

The primary source of operating revenue for the School comes from per pupil charter school allocation (\$989,459) from Montezuma County (Cortez) School District RE-1. The School received \$7,411.68 per funded student. In fiscal year 2018 the funded pupil count was 133.5. Funding for the charter school allocation comes from property taxes, specific ownership taxes and state equalization.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those service costs. Table 5 shows, for governmental activities, the total cost of services and net cost of services. That is, it identifies the cost of these services supported by the per pupil charter school allocation.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

Table 5
Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$1,086,928	\$1,242,748	\$1,020,116	\$1,155,049
Students	278,169	316,623	24,330	119,535
Instructional staff	11,822	47,686	11,822	47,686
General administration	44,084	39,930	44,084	39,930
School administration	409,530	664,262	312,227	528,702
Business	111,649	139,096	102,521	133,907
Operations and maintenance of plant	78,892	68,061	78,892	68,061
Student transportation	9,941	16,142	9,941	16,142
Central	25,017	29,607	25,017	29,607
Facilities acquisition		2,247	(35,213)	(37,736)
Unallocated depreciation	32,534	31,329	32,534	31,329
Total	<u>\$2,088,566</u>	<u>\$2,597,731</u>	<u>\$1,626,271</u>	<u>\$2,132,212</u>

- The cost of all governmental activities during the year was \$2,088,566.
- Federal and state government subsidized certain programs with grants and contributions (\$462,295).
- However, most of the School's costs (\$989,459) were financed by per pupil charter school allocations.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's major governmental funds include the General Fund, Governmental Designed-Purpose Grants Fund and the Capital Projects Fund under GASB 34 reporting requirements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$1,533,477 and expenditures of \$1,521,501.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

General Fund Budgetary Highlights

The School's budget process is consistent with current Colorado statutes that require a proposed budget be presented to the Board of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through December 31st of each year. The most significant budgeted fund is the General Fund.

Over the course of the year, the School revised the annual operating budget by making an increase in appropriations.

- Increases in appropriations were primarily the result of additional information that was obtained after the time the original budget was prepared.
- Actual expenditures were \$717,762 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2018, the School has invested \$964,757 in buildings.

Table 6 shows capital assets for 2018 compared to 2017:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2018	2017
Buildings	\$ 964,757	\$ 934,634
Accumulated Depreciation	(352,861)	(320,327)
Total	<u>\$ 611,896</u>	<u>\$ 614,307</u>

Additional information on the School's capital assets can be found in Note 3 on page 26 of this report.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2018

FACTORS BEARING ON THE SCHOOL'S FUTURE

At the time these financial statements were prepared and audited, the School is not aware of any existing circumstances that could significantly affect its financial health in the future.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School's citizens, taxpayers, parents, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Southwest Open School; 401 North Dolores Road; Cortez, Colorado 81321.

SOUTHWEST OPEN SCHOOL
Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,248,976
Grants receivable	34,675
Capital assets, net of depreciation	611,896
Total Assets	<u>1,895,547</u>
Deferred Outflows of Resources	
Pension items, net of accumulated amortization	1,475,868
OPEB items, net of accumulated amortization	4,248
Total Deferred Outflows of Resources	<u>1,480,116</u>
Liabilities	
Due to school district	4,341
Accrued salaries and benefits payable	116,602
Noncurrent liabilities	
Net pension liability	5,138,764
Net OPEB liability	117,348
Total Liabilities	<u>5,377,055</u>
Deferred Inflows of Resources	
Pension items, net of accumulated amortization	210,131
OPEB items, net of accumulated amortization	1,963
Total Deferred Inflows of Resources	<u>212,094</u>
Net Position	
Net investment in capital assets	611,896
Restricted	
TABOR	45,000
Capital projects	378,446
Unrestricted	(3,248,828)
Total Net Position	<u>\$ (2,213,486)</u>

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Activities

For the Year Ended June 30, 2018

				Net (Expenses) Revenue And Changes in Net Position
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Instructional Program Services	\$ 1,086,928	\$ 66,812		\$ (1,020,116)
Support Program Services				
Students	278,169	253,839		(24,330)
Instructional staff	11,822			(11,822)
General administration	44,084			(44,084)
School administration	409,530	97,303		(312,227)
Business	111,649	9,128		(102,521)
Plant operation and maintenance	78,892			(78,892)
Student transportation	9,941			(9,941)
Central support services	25,017			(25,017)
Facilities acquisition			\$ 35,213	35,213
Depreciation excluding amounts directly allocated to programs	32,534			(32,534)
Total Governmental Activities	<u>2,088,566</u>	<u>427,082</u>	<u>35,213</u>	<u>(1,626,271)</u>
Total School	<u>\$ 2,088,566</u>	<u>\$ 427,082</u>	<u>\$ 35,213</u>	<u>(1,626,271)</u>
General Revenues				
Per pupil charter school allocation				989,459
Intergovernmental				
Public Lands				5,402
Impact Aid				39,388
Miscellaneous				36,933
Total General Revenues				<u>1,071,182</u>
Changes in Net Position				(555,089)
Net Position Beginning of the Year (as restated)				(1,658,397)
Net Position End of the Year				<u><u>\$ (2,213,486)</u></u>

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Balance Sheet
Governmental Funds

June 30, 2018

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ 870,080		\$ 378,896	\$ 1,248,976
Due from other funds	24,858	\$ (24,408)	(450)	-
Grants accounts receivable		34,675		34,675
Total Assets	<u>\$ 894,938</u>	<u>\$ 10,267</u>	<u>\$ 378,446</u>	<u>\$ 1,283,651</u>
Liabilities				
Due to school district	\$ 4,341			\$ 4,341
Accrued salaries and benefits payable	106,335	\$ 10,267		116,602
Total Liabilities	<u>110,676</u>	<u>10,267</u>		<u>120,943</u>
Fund Balances				
Restricted				
Tabor	45,000			45,000
Capital projects			\$ 378,446	378,446
Unrestricted				
Assigned for next year's expenditures	739,262			739,262
Total Fund Balances	<u>784,262</u>	<u>-</u>	<u>378,446</u>	<u>1,162,708</u>
Total Liabilities and Fund Balances	<u>\$ 894,938</u>	<u>\$ 10,267</u>	<u>\$ 378,446</u>	<u>\$ 1,283,651</u>

Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position

Total Fund Balance Governmental Funds \$ 1,162,708

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets	\$ 964,757	
Accumulated depreciation	(352,861)	
		<u>611,896</u>

Long-term liabilities and related items, including net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources, are not due and payable in the current year, and, therefore, are not reported in governmental funds.

Net pension obligation	(5,138,764)	
Net OPEB obligation	(117,348)	
Deferred outflows of resources related to pensions - net	1,475,868	
Deferred outflows of resources related to OPEB - net	4,248	
Deferred inflows of resources related to pensions - net	(210,131)	
Deferred inflows of resources related to OPEB - net	(1,963)	
		<u>(3,988,090)</u>

Total Net Position Governmental Activities \$ (2,213,486)

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Per pupil charter school allocation	\$ 989,459			\$ 989,459
Local and Intermediate sources	42,140	\$ 78,465	\$ 195	120,800
State sources	27,286	309,567	35,213	372,066
Federal sources	51,152			51,152
Total Revenues	<u>1,110,037</u>	<u>388,032</u>	<u>35,408</u>	<u>1,533,477</u>
Expenditures				
Instructional Program	659,016	27,762		686,778
Support Programs				
Students	17,997	253,839		271,836
Instructional staff	11,822			11,822
General administration	44,084			44,084
School administration	198,319	97,303		295,622
Business	60,226	9,128		69,354
Operation and maintenance of plant	56,987		19,937	76,924
Student transportation	9,941			9,941
Central	25,017			25,017
Facilities acquisition			30,123	30,123
Total Expenditures	<u>1,083,409</u>	<u>388,032</u>	<u>50,060</u>	<u>1,521,501</u>
Excess revenues over (under) expenditures	<u>26,628</u>	<u>-</u>	<u>(14,652)</u>	<u>11,976</u>
Net Change in Fund Balances	26,628	-	(14,652)	11,976
Fund Balances beginning of the year	757,634	-	393,098	1,150,732
Fund Balances end of the year	<u>\$ 784,262</u>	<u>\$ -</u>	<u>\$ 378,446</u>	<u>\$ 1,162,708</u>

The accompanying notes are an integral part of this statement

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

For the Year Ended June 30, 2018

Net Change in Fund Balances Governmental Funds	\$	11,976
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Depreciation expense	\$	(32,534)	
Capital outlay		30,123	
			(2,411)

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 the governmental funds. This amount represents the change in net pension liability, OPEB liability pension and OPEB-related deferred outflows of resources, and pension and OPEB-related deferred inflows of resources in the current period.

Pension contributions		138,034	
Pension expense		(715,213)	
OPEB contributions		7,458	
OPEB expense		5,067	
			(564,654)

Change in Net Position of Governmental Activities	\$	(555,089)
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The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund

For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues				
Local and Intermediate sources				
Per-pupil charter school allocation	\$ 1,039,899	\$ 1,002,579	\$ 989,459	\$ (13,120)
Public Lands	993	5,392	5,402	10
Other		36,738	36,738	-
Total local sources	<u>1,040,892</u>	<u>1,044,709</u>	<u>1,031,599</u>	<u>(13,110)</u>
State sources				
Grants		27,286	27,286	-
Total state sources	<u>-</u>	<u>27,286</u>	<u>27,286</u>	<u>-</u>
Federal sources				
Impact Aid	27,600	39,388	39,388	-
Grants		11,717	11,764	47
Total federal sources	<u>27,600</u>	<u>51,105</u>	<u>51,152</u>	<u>47</u>
Total Revenues	<u>1,068,492</u>	<u>1,123,100</u>	<u>1,110,037</u>	<u>(13,063)</u>
Expenditures				
Instructional Program	658,657	724,578	659,016	65,562
Students	16,074	40,508	17,997	22,511
Instructional staff	12,160	12,189	11,822	367
General administration	39,421	38,687	44,084	(5,397)
School administration	206,500	223,500	198,319	25,181
Business	59,190	59,190	60,226	(1,036)
Operation and maintenance of plant	68,197	68,197	56,987	11,210
Student transportation	10,608	12,391	9,941	2,450
Central	28,023	28,023	25,017	3,006
Appropriated reserves	644,955	606,971		606,971
Total Expenditures	<u>1,743,785</u>	<u>1,814,234</u>	<u>1,083,409</u>	<u>730,825</u>
Net Change in Fund Balances	(675,293)	(691,134)	26,628	717,762
Fund Balances beginning of the year	675,293	691,134	757,634	66,500
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 784,262</u>	<u>\$ 784,262</u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Governmental Designated-Purpose Grants Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Grants	\$ 16,000	\$ 18,500	\$ 78,465	\$ 59,965
State sources				
Grants	263,700	369,533	309,567	(59,966)
Total Revenues	<u>279,700</u>	<u>388,033</u>	<u>388,032</u>	<u>(1)</u>
Expenditures				
Instructional Program	5,790	27,727	27,762	(35)
Students	162,100	253,996	253,839	157
School Administration	111,810	97,338	97,303	35
Business		8,972	9,128	(156)
Total Expenditures	<u>279,700</u>	<u>388,033</u>	<u>388,032</u>	<u>1</u>
Excess revenues over (under) expenditures	-	-	-	-
Fund Balances beginning of the year	-	-	-	-
Fund Balances end of the year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

1. Summary of Significant Accounting Policies

The financial statements of Southwest Open School ("School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements of Interpretations).

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

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. Based on the application of this criteria, the school does not include additional organizations within its reporting entity.

The School is a component unit of the Montezuma County (Cortez) School District RE-1 ("District"). The School's charter was granted 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 (the statement of net position and the statement of activities) display information about the School as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

incurred, regardless of the timing of the related cash flow. On an accrual bases, grants and similar items are recognized as revenue in the fiscal year in which 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 period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the school considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

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 accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the School is consistent with legal and managerial requirements. The School reports the following major governmental funds:

General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil funding from the School.

Governmental Designated-Purpose Grants Fund maintains a separate accounting for programs funded by local, state and federal grants.

Capital Projects Fund is used to account for the accumulation of resources and expenditure of resources for capital improvements within the School.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments include investments with original maturities of three months or less. Investments are reported at fair value.

Due to/from the School District – Amounts that are due to/from the District are normal transactions that are paid in the next three months or less.

Short-term Interfund Receivable/Payables – During the course of operations, transactions occur between individual funds for goods provided or services rendered. These are paid in the next three months or less.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

Grants Receivable – State and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Grants receivable are recorded when expenditures are made, and the grant monies have not yet been received.

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value of the date donated. The School maintained a capitalization threshold of \$25,000 for major outlays for building and improvements. The School does not possess any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the life of an asset are not capitalized.

Depreciation of exhaustible capital assets is charged as an expense against operations in the statement of activities, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives; building and improvements 20-50 years and equipment 7 years.

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

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

Accrued Salaries and Benefits Payable – represent the liability to teachers and certain other employees who earn their salaries over the nine-month school year but are paid over a twelve-month period. Changes in the accrual are reflected in expenditures or expense on the applicable fund's statement of revenue, expenditures and changes in fund balance.

Compensated Absences – The School's policy allows employees to accumulated sick leave. Upon termination of employment, no financial compensation is paid for unused sick day. Therefore, no liability for accumulated sick leave is reported in the financial statements.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

Federal and State Administered Grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

Fund Equity – The fund balance of the governmental funds is reported in classifications based on the extent to which the School is bound to honor constraints for the specific purposes on which amount in the fund can be spent as follows:

- Nonspendable fund balance represents assets that cannot be spent either because of their form or legally or contractually must be maintained intact.
- Restricted fund balance reflects resources that are subject to externally enforceable legal limitations.
- Committed fund balance is the portion that is limited to specific purposes determined by a formal action of the Board.
- Assigned fund balance displays the School's intended use of these resources.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balances consist of required TABOR reserves of \$45,000 and \$378,446 for capital projects.

When determining categories of fund balance, it is assumed that the type of expenditure determines the primary use of the fund balance. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. Once the commitment or assignment is satisfied unassigned resource are used.

Net Position - Net position represents the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are liabilities imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Pensions – The School participates in the School Division Trust Fund (SCHDTF), 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 fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to the plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018*.

OPEB- The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Budgets and Budgetary Accounting – The School is required by Colorado Statutes to adopt annual budgets for all funds. Each budget is prepared on the same basis (GAAP basis) as that used for accounting purposes.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the Superintendent's staff submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.

The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain comments.

Prior to June 30, the budget is legally adopted through passage of a resolution by the Board of Education. However, the Board can review and change the adopted budget through December 31.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

Formal budgetary integration is employed as a management control device during the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed by the School as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

2. Cash and Investments

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the School's deposits might not be recovered. However, there is no custodial risk for public deposits because they are collateralized under the Colorado Public Deposit Protection Act (PDPA). The PDPA specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local governmental depositors as a group, with a market value at least 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

At June 30, 2018, the carrying amount of the School's cash was \$1,248,976 in demand deposits. The School's bank balances of \$1,292,664 at June 30, 2018 and during the year ended June 30, 2018 were entirely covered by FDIC insurance or pledged collateral held by the School's agent banks in the name of governmental accounts of which the School is a part.

3. Capital Assets – Capital asset activity for the fiscal year ended June 30, 2018 follows:

	Capital Assets <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Capital Assets <u>June 30, 2018</u>
Governmental Activities				
Capital Assets, being depreciated				
Buildings	\$ 934,634	\$ 30,123		\$ 964,757
Less Accumulated Depreciation				
Buildings	(320,327)	(32,534)		(352,861)
Governmental Activities Capital Assets, net	<u>\$ 614,307</u>	<u>\$ (2,411)</u>	<u>\$ -</u>	<u>\$ 611,896</u>

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

4. Defined Benefit Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2017. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions provisions as of June 30, 2018. Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.50%
Total Employer Contribution Rate to the SCHDTF¹	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$138,034 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of \$5,138,764 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The School's proportion of the net pension liability

SOUTHWEST OPEN SCHOOL

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was based on the School's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the School's proportion was .0158915543 percent, which was a decrease of .0019 percent from its proportion measured as of December 31, 2016. For the year ended June 30, 2018, the School recognized pension expense of \$715,213. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 94,480	
Changes in assumptions	1,312,117	\$ 8,327
Net difference between projected and actual earnings on pension plan investments		201,804
Contributions subsequent to the measurement date	69,271	
Total	<u>\$ 1,475,868</u>	<u>\$ 210,131</u>

\$69,271 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 808,926
2020	459,243
2021	4,217
2022	(75,920)

SOUTHWEST OPEN SCHOOL

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

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50-9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

A discount rate of 4.78 percent was used in the roll forward calculation of the total pension liability to the measurement date of December 31, 2017.

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

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table adjusted as follows:

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

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

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Mortality Table.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015 as well as, the October 28, 2016 actuarial assumptions workshop and were adopted by the PERA Board during the November 28, 2016 Board meeting.

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

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

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

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
Non U.S. Fixed Income Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
High Yield	1.38%	4.30%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Core Real Estate	8.50%	4.90%
Cash	1.00%	0.20%
Total	100.00%	

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

Discount rate. The discount rate used to measure the total pension liability was 4.78 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

SOUTHWEST OPEN SCHOOL

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Total covered payroll for the initial projection year consisted of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent years, total covered payroll was assumed to increase annually at a rate of 3.50%.

Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve of the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041, and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78%.

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As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, .48 percent higher compared to the current measurement date

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$6,491,133	\$5,138,764	\$4,036,738

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

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

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

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

- Increases employer contribution rates by .25 percent on July 1, 2019
- Increases employee contribution rates by a total of 2 percent (to be phased in over period of 3 years starting July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

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- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018 the School reported a liability of \$5,138,764 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the School's proportionate share of the net pension liability and associated discount rate would have been had the provisions of HB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro-forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net position liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB1 18-200 (pro forma)
7.25%	\$2,321,649

Recognizing that the changes and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$2,398,807 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

5. Other Post-Employment Benefits

Plan description. Eligible employees of the School are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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

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

PERA Benefit Structure

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

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

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Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$7,458 for the year ended June 30, 2018.

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

At June 30, 2018 the School reported a liability of \$117,348 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the School proportion was .0090 percent, which was decrease of .001 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$(5,067). At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 555	
Net difference between projected and actual earnings on pension plan investments		\$ 1,963
Contributions subsequent to the measurement date	3,693	
Total	<u>\$ 4,248</u>	<u>\$ 1,963</u>

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\$3,693 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (381)
2020	(381)
2021	(381)
2022	(382)
2023	109
2024	8

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

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

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

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

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

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

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

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

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

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- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

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

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

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

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

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June 30, 2018

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

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	114,119	117,348	121,236

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

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

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June 30, 2018

- Benefit payments and contributions were assumed to be made at the end of the month.

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	131,936	117,348	104,896

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

6. Defined Contribution Pension Plan

Voluntary Investment Program

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

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The School has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2018, program members contributed \$6,187 to the Voluntary Investment Program.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

7. Accrued Salaries – Certified instructors of the School are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling \$116,602, is reflected as an accrued expense at June 30.

8. Fund Balance Restrictions and Assignments – Restricted indicates that a portion of the fund balance can only be spent for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors. Assigned indicates amounts that are designated for a specific purpose by the Board of Education but are not spendable until appropriated. The School uses the following restrictions and assignments:

Restricted

TABOR – indicates that a portion of the fund balance has been segregated for expenditures for declared emergencies only. Fund balance reserved for emergencies consists of \$45,000 in the General Fund.

Capital projects- indicates that the fund balance (\$739,262) of the Capital Projects Fund has been restricted for major capital purchases.

Assigned

Assigned for future expenditures – indicates anticipated fund balance available for appropriation in the next budget year. Fund balances assigned for future expenditures consist of \$ 739,262 in the General Fund.

9. Risk Management – The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School is a member of the Colorado School Schools Self-Insurance Pool (The Pool). The Pool was formed in 1981 to provide 93-member school Schools and related educational facilities with defined property and liability coverage through joint self-insurance and excess insurance. The School pays an annual premium for its general insurance coverage. The Pool is self-sustaining through member premiums and obtains excess insurance to limit per occurrence exposure to \$250,000.

The School continues to carry commercial insurance for all other risks of loss including worker's compensation and employee health and accident insurance. There have been no settled claims that have exceeded insurance coverage in any of the past three fiscal years. There have been no significant decreases in insurance coverage from the prior year.

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June 30, 2018

In addition, the School participates in the Montezuma County (Cortez) School RE-1 Self Insurance Fund to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of \$110,000, with a maximum aggregate benefit of \$1,000,000.

- 10. Tax, Spending, and Debt Limitations** – Colorado Voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The people of the School voted to authorize the spending of all monies in existing funds and to collect, retain, and expend the full revenue, including state grants and taxes, generated during fiscal year 1998 and for each subsequent year regardless of any limitation contained in Article X, Section 20, of the Colorado Constitution. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with all other requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.
- 11. Commitments and Contingent Liabilities** – There were no commitments or contingent liabilities at June 30.
- 12. Restatement of Net Position-** The School adopted GASB Statement 75 in the current fiscal year. This statement requires the District to report its proportionate share of net OPEB liabilities, along with deferred outflows and inflows of resources related to its involvement with the Health Care Trust of PERA see Footnote 5. Accordingly, the beginning net position of the governmental funds was decreased by \$127,590 to reflect the net effect of the School's proportionate share of the above items on its net position at July 1, 2017.

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Required Supplementary Information

June 30, 2018

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

Such information includes:

Pension Schedules

Schedule of School's Pension Contributions

Schedule of School's Proportionate Share of the Net Pension Liability

OPEB Schedules

Schedule of School's OPEB Contributions

Schedule of the School's Proportionate Share of the Net OPEB Liability

SOUTHWEST OPEN SCHOOL
Schedule of School's Pension Contributions

June 30, 2018
Last 10 Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 138,036	\$ 136,911	\$ 125,215	\$ 135,600
Contributions in relation to the statutory required contribution	138,036	136,911	125,215	135,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 731,206	\$ 745,123	\$ 703,211	\$ 802,153
Contributions as a percentage of covered employee payroll	18.88%	18.37%	17.81%	16.90%

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Notes to Required Supplementary Information

See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of the School's Proportionate Share of the Net Pension Liability

June 30, 2018
Last 10 Years*

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Proportionate Share of the Net Pension Liability				
School's proportionate share of the Net Pension Liability	0.01589155%	0.01781632%	0.01624122%	0.01732241%
School's proportionate share of the Net Pension Liability	\$ 5,138,764	\$ 5,304,608	\$ 2,483,979	\$ 2,347,768
School's covered employee payroll	\$ 733,058	\$ 799,753	\$ 707,552	\$ 725,688
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	701.00%	663.28%	351.07%	323.52%
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.13%	59.20%	64.07%

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Notes to Required Supplementary Information

See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of School's OPEB Contributions

June 30, 2018
Last 10 Years*

	<u>2018</u>	<u>2017</u>
Statutorily required contributions	\$ 7,458	\$ 7,600
Contributions in relation to the statutory required contribution	7,458	7,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 731,206	\$ 745,123
Contributions as a percentage of covered employee payroll	1.02%	1.02%

* Information is not available for years prior to 2017.

Notes to Required Supplementary Information

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of the School's Proportionate Share of the Net OPEB Liability

June 30, 2018
Last 10 Years*

	<u>12/31/2017</u>	<u>12/31/2016</u>
School's proportion of the Net OPEB Liability	0.00902951%	0.01012700%
School's share of the Net OPEB Liability	\$ 117,348	\$ 131,300
School's covered employee payroll	\$ 733,058	\$ 745,124
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	16.01%	17.62%
Plan fiduciary net position as a percentage of the total pension liability	17.53%	16.72%

* Information is not available for years prior to 2016.

Notes to Required Supplementary Information

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Other Supplementary Information

June 30, 2018

Other supplementary information includes financial statements and schedules not required by the GASB, or a part of the basic financial statements, but are presented for purposes of additional analysis.

These statements and schedules include:

Budgetary Comparison Schedules
Capital Projects Fund

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Projects Fund

For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Earnings of Investments			\$ 195	\$ 195
Total local sources			<u>195</u>	<u>195</u>
State sources				
Grants	\$ 36,668	\$ 36,668	35,213	(1,455)
Total Revenues	<u>36,668</u>	<u>36,668</u>	<u>35,408</u>	<u>(1,260)</u>
Expenditures				
Support Programs				
Operation and maintenance of plant		30,758	19,937	10,821
Facilities acquisition	36,668	20,757	30,123	(9,366)
Appropriated reserves	393,098	378,251		378,251
Total Expenditures	<u>429,766</u>	<u>429,766</u>	<u>50,060</u>	<u>379,706</u>
Net Changes in Fund Balances	(393,098)	(393,098)	(14,652)	378,446
Fund Balances beginning of the year	393,098	393,098	393,098	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,446</u>	<u>\$ 378,446</u>



Revenues, Expenditures, & Fund Balance by Location and Fund

Location (900- 969): 930

Fund Type &Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001 - 0999 Total Expenditures & Other Uses	6700 - 6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	0	0	0	0
18 Risk Mgmt Sub-Fund of General Fund	0	12,720	12,720	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	0	12,720	12,720	0
11 Charter School Fund	757,634	1,097,317	1,070,689	784,262
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	388,032	388,032	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	393,098	35,408	50,060	378,446
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
Totals	1,150,732	1,533,477	1,521,501	1,162,708
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	0	0	0	0

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your priorperiod adjustment is added into both your ending and beginning fund balances on this report.