

PUEBLO SCHOOL FOR ARTS AND SCIENCES

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2018

Comprised of:

**Pueblo School for Arts and Sciences – Jones Avenue
Pueblo School for Arts and Sciences – Fulton Heights**

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
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JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pueblo School for Arts and Sciences

We have audited the accompanying financial statements of the governmental activities and each major fund of Pueblo School for Arts and Sciences (the School), a component unit of Pueblo School District No. 60, 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 an opinion 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Pueblo School for Arts and Sciences, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, effective July 1, 2017, the School adopted new accounting guidance, GAB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hoelting & Company, Inc.

Colorado Springs, Colorado
December 7, 2018

PUEBLO SCHOOL FOR ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2018

As management of Pueblo School for Arts and Sciences (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- Liabilities and deferred inflows of the School exceeded its assets and deferred outflows by \$8,589,558 during the fiscal year resulting in a negative net position balance. This includes net pension and OPEB liabilities of \$14,256,009, deferred outflows of \$4,848,367, and deferred inflows of \$581,795. Absent these adjustments, assets would have exceeded liabilities by \$1,399,879.
- The School's total net position decreased \$2,997,000 reflecting increases to net pension and OPEB liabilities and a planned spend-down of capital reserves on completion of maintenance projects for the Jones campus and remodeling project on the Fulton Heights campus begun the previous fiscal year.
- The School has no long-term debt outstanding.
- As of the close of the current fiscal year, the School's general fund reported an ending fund balance surplus of \$1,092,221.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances as a whole, in a manner similar to a private-sector business and include two statements:

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

The *statement of activities* presents information reporting how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are

reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include general government of running a K-8 charter school in Pueblo City School District 60.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the School's operations, focusing on its most significant funds, not the School as a whole. The School has a general fund, which is a governmental fund.

Governmental Funds: The School's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School's programs.

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the School. The School adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget. Other schedules have also been included to report certain pension and OPEB information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School total liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$8,589,558 as of June 30, 2018 resulting in a negative net position. This includes net pension and OPEB liabilities of \$14,256,009, deferred outflows of \$4,848,367, and deferred inflows of \$581,795. Absent these adjustments, assets would have exceeded liabilities by \$1,399,879.

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>
Capital assets	\$ 773,285	\$ 534,483
Other assets	<u>1,092,221</u>	<u>1,337,391</u>
Total assets	<u>1,865,506</u>	<u>1,871,874</u>
Deferred outflow of resources	<u>4,848,367</u>	<u>4,434,928</u>
Long-term liabilities	14,256,009	11,229,961
Other liabilities	<u>465,627</u>	<u>316,586</u>
Total liabilities	<u>14,721,636</u>	<u>11,546,547</u>
Deferred inflows of resources	<u>581,795</u>	<u>50,740</u>
Investment in capital assets	773,285	534,483
Restricted	144,650	102,000
Unrestricted	<u>(9,507,493)</u>	<u>(5,926,968)</u>
Total net position (deficit)	<u>\$ (8,589,558)</u>	<u>\$ (5,290,485)</u>

Condensed Statement of Changes in Net Position

	<u>2018</u>	<u>2017</u>
Charges for services	\$ 34,386	\$ 24,003
Operating grants and contributions	407,202	421,951
Capital grants and contributions	<u>75,164</u>	<u>59,696</u>
Total program revenues	<u>516,752</u>	<u>505,650</u>
Per pupil revenue	4,489,254	3,247,259
Interest	3,429	-
Other	<u>89,393</u>	<u>28,163</u>
Total general revenues	<u>4,582,076</u>	<u>3,275,422</u>
Total revenues	<u>5,098,828</u>	<u>3,781,072</u>
Instruction	5,200,722	3,596,706
Supporting services	2,675,600	1,823,756
Facilities acquisition and construction	<u>219,506</u>	<u>-</u>
Total program expenses	<u>8,095,828</u>	<u>5,420,462</u>
Change in net position	<u>(2,997,000)</u>	<u>(1,639,390)</u>
Beginning net position, as originally stated	(5,290,485)	(3,651,095)
Prior period adjustments	<u>(302,073)</u>	<u>-</u>
Beginning net position, as restated	<u>(5,592,558)</u>	<u>(3,651,095)</u>
Ending net position (deficit)	<u>\$ (8,589,558)</u>	<u>\$ (5,290,485)</u>

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 general fund is the operating fund of the School. The fund balance for the general fund was \$626,594 at the end of the current fiscal year. Absent a Board-directed spend-down of capital reserve funds for completion of controlled maintenance and remodeling projects begun the previous fiscal year, the School's general fund would have increased \$133,849 as the result of operating revenues exceeding expenditures by that amount.

BUDGETARY HIGHLIGHTS

The School's budget is prepared in accordance with state law. During the year the School amended its General Fund budget primarily to reflect the following changes:

- Decrease in per pupil revenue of \$62,471 as final enrollment was less than the projected enrollment.
- Increase in anticipated expenditures of \$424,909.
- For the year ended June 30, 2018, expenditures exceeded appropriations in the General Fund by \$18,054. The reported excess is the result of recording intergovernmental payables for invoices received from Pueblo School District No. 60 in October 2018 for additional special education costs of \$26,817 for the 2015-16 year and \$40,990 for the 2016-17 year. These over-expenditures were funded by beginning fund balances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets include all capital outlays related to building improvements and equipment. Capital assets net of depreciation was \$773,285 as of June 30, 2018. Significant capital outlays during the year included:

- \$57,778 for modular buildings.
- \$39,486 for playground equipment.
- \$36,500 for a basketball court.
- \$47,323 for a parking lot.
- \$58,886 for an intercom system.

Debt Administration

The School has no long term debt outstanding.

ECONOMIC FACTORS

- Pueblo School for Arts and Sciences is located in southern Pueblo. The State economy is stabilizing after the recent recession but the recovery is slower in Pueblo and southern Colorado. Forecasts from the Governor's Budget Office are for continued slow growth.

State K-12 per pupil has been reduced approximately 13% between fiscal years 2009 and 2013 per the State Office of Budgeting and Planning and was slightly increased in 2014-15 and the subsequent two years. State funding for 2018-19 was significantly increased but carried a caveat of uncertain sustainability from the legislature.

SCHOOL INFORMATION

- Pueblo School for Arts and Sciences is a K-8 charter school operating under the authorization of Pueblo City School District 60 since 1994. Colorado State University-Pueblo, the local undergrad/graduate university, historically provided administrative services but the School took over that responsibility July 1, 2011.
- The school maintains a steady and full enrollment of 575 funded students on two campuses, Jones and Fulton Heights. This number may fluctuate slightly on student count day causing the annual operating budget to be originally based on slightly fewer students and then adjusted to actual enrollment at mid-year.

REQUESTS FOR INFORMATION

This financial report is designed to provide the School's taxpayers 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 Theresa Martinez, Pueblo School for Arts and Sciences 922 E. Hailey Lane Ste B, Pueblo West, CO 81007.

BASIC FINANCIAL STATEMENTS

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS	
Cash	\$ 1,030,175
Intergovernmental receivables	62,046
Capital assets, net of accumulated depreciation	<u>773,285</u>
Total assets	<u>1,865,506</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflows	4,801,935
Deferred OPEB outflows	<u>46,432</u>
Total deferred outflows of resources	<u>4,848,367</u>
 LIABILITIES	
Accounts payable	116,058
Intergovernmental payables	83,687
Accrued salaries and benefits	238,437
Unearned revenue	27,445
Noncurrent liabilities:	
Due in more than one year	
Net pension liability	13,937,730
Net OPEB liability	<u>318,279</u>
Total liabilities	<u>14,721,636</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	576,470
Deferred OPEB inflows	<u>5,325</u>
Total deferred inflows of resources	<u>581,795</u>
 NET POSITION	
Investment in capital assets	773,285
Restricted for emergencies	144,650
Unrestricted	<u>(9,507,493)</u>
Total net position (deficit)	<u><u>\$ (8,589,558)</u></u>

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

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 5,200,722	\$ 34,386	\$ 407,202	\$ -	\$ (4,759,134)
Support services	2,675,600	-	-	-	(2,675,600)
Facilities acquisition and construction	219,506	-	-	75,164	(144,342)
Total governmental activities	\$ 8,095,828	\$ 34,386	\$ 407,202	\$ 75,164	(7,579,076)
General Revenues:					
Per pupil revenue					4,489,254
Interest					3,429
Other					89,393
Total general revenues					4,582,076
Change in net position					(2,997,000)
Net position, beginning, as restated (deficit)					(5,592,558)
Net position, ending (deficit)					\$ (8,589,558)

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

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
BALANCE SHEET
GENERAL FUND
JUNE 30, 2018**

ASSETS

Cash	\$ 1,030,175
Intergovernmental receivables	<u>62,046</u>
 Total Assets	 <u><u>\$ 1,092,221</u></u>

LIABILITIES

Accounts payable	\$ 116,058
Intergovernmental payables	83,687
Accrued salaries and benefits	238,437
Unearned revenue	<u>27,445</u>
 Total Liabilities	 <u>465,627</u>

FUND BALANCE

Restricted for emergencies	144,650
Unassigned	<u>481,944</u>
 Total Fund Balance	 <u>626,594</u>

Total Liabilities and Fund Balance	<u><u>\$ 1,092,221</u></u>
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The accompanying notes are an integral part of these financial statements.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance of Governmental Funds	\$	626,594
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		773,285
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.		
Pension outflows	\$ 4,801,935	
OPEB outflows	<u>46,432</u>	4,848,367
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension liability	\$ (13,937,730)	
Net OPEB liability	<u>(318,279)</u>	(14,256,009)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.		
Pension inflows	\$ (576,470)	
OPEB inflows	<u>(5,325)</u>	<u>(581,795)</u>
Total Net Position of Governmental Activities		<u><u>\$ (8,589,558)</u></u>

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

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

REVENUES	
Local sources	\$ 286,962
State sources	4,590,378
Federal sources	<u>221,488</u>
Total revenues	<u>5,098,828</u>
EXPENDITURES	
Instruction	2,964,385
Support services	2,000,594
Facilities acquisition and construction	<u>495,056</u>
Total expenditures	<u>5,460,035</u>
Net change in fund balance	(361,207)
Fund balance - beginning, as restated	<u>987,801</u>
Fund balance, ending	<u><u>\$ 626,594</u></u>

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

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Funds	\$	(361,207)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Outlay	\$ 302,056	
Depreciation Expense	<u>(63,254)</u>	238,802

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.

Pension expenses	\$ (2,866,492)	
OPEB expenses	<u>(8,103)</u>	<u>(2,874,595)</u>

Change in Net Position of Governmental Activities	\$	<u><u>(2,997,000)</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pueblo School for Arts and Sciences (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate charter schools within the Pueblo School District No. 60 (the “District”) in the State of Colorado.

The School manages two charter schools within the Pueblo area. The Jones Avenue and Fulton Heights locations are component units of the Pueblo School District No. 60.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

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

Based upon the application of these criteria, there are no organizations that should be included in the School’s reporting entity.

The School is considered a component unit of the District. The School is deemed to be fiscally dependent upon the District because the District provides the majority of the support to the School in the form of per pupil operating revenue. The School operates under a charter with the District. The current charter runs through June 30, 2026 at which time the School may seek renewal of its charter in accordance with procedures set forth in state law and school district policy and regulations.

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

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 is consistent with legal and managerial requirements.

The School reports the following major governmental fund:

The *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.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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 collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government 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. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met, and the amount is received during the period or within the availability period of this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE

Receivables

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

Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include building improvements and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with a cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

Equipment	7 years
Building improvements	15 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

Accrued Salaries and Benefits

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

Unearned Revenues

Unearned revenues include grant funds that have been collected but the corresponding expense has not been incurred and activity fees collected for future periods.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Pensions

Pueblo School for Arts and Sciences participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the 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.

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 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*.

Health Care Trust Fund

Pueblo School for Arts and Sciences 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.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Net position flow assumption

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Classification

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

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Compensated Absences

The School's policy allows 12 month employees (not the Professional and Instructional staff) to accumulate vacation leave at a rate of 20 hours per month. Upon termination of employment from the School, an employee will be compensated for accrued vacation time up to 200 hours.

These compensated absences are recognized as current salary costs when due in the governmental fund types. As no material amounts were due, no liability has been recorded in the government-wide financial statements for the accrued compensated absences as of June 30, 2018.

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) fees and charges to users 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. Revenues that are not classified as program revenues, including per pupil revenue, are reported as *general revenues*.

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. PRIOR PERIOD ADJUSTMENTS

Adoption of new accounting standards

The School implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, effective July 1, 2017. This Statement establishes standards of accounting and financial reporting for defined benefit Health Care Trust funds provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. As a result, net position at June 30, 2017, was restated to reflect the cumulative effect of adopting the standards.

Correction of an error

During the year, it was determined that prior year payroll liabilities were overstated. As a result, the beginning net position for the governmental activities has been restated to reflect the cumulative effect of the correction.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Restatements had the following impact on previously reported balances:

Net Position, June 30, 2017, as originally stated	\$ (5,290,485)
Restatement for net OPEB liability	(269,069)
Restatement to correct payroll liabilities	<u>(33,004)</u>
Net Position, June 30, 2017, as Restated (deficit)	<u>\$ (5,592,558)</u>
Fund Balance, June 30, 2017, as originally stated	\$ 1,020,805
Restatement to correct payroll liabilities	<u>(33,004)</u>
Fund Balance, June 30, 2017, as Restated (deficit)	<u>\$ 987,801</u>

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statutes for all funds. During April, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Prior to June 30, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

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

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances.

The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, expenditures exceeded appropriations in the General Fund by \$18,054. The reported excess is the result of recording intergovernmental payables for invoices received from Pueblo School District No. 60 in October 2018 for additional special education costs of \$26,817 for the 2015-16 year and \$40,990 for the 2016-17 year. These over-expenditures were funded by beginning fund balances.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. Colorado State Statutes govern the entity’s deposit of cash. The Public Deposit Protection Acts for banks and savings and loans require the state regulators to certify eligible depositories for public deposits. The acts require the eligible depositories with public deposits in excess of the federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the assets in the pool must be at least equal to 102% of the uninsured deposits.

At June 30, 2018, the carrying amount of the School’s deposits was \$1,030,175 and the bank balances were \$1,176,283. Of the bank balances, \$250,000 was covered by FDIC insurance and \$926,283 was uninsured, but collateralized in accordance with the provisions of the Colorado Public Deposit Protection Act (PDPA). The collateral is pooled and held in a trust for all uninsured deposits as a group.

Investments

The School is required to comply with State statutes that specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. government agencies’ securities;
- Certain international agencies’ securities;
- General obligation and revenue bonds of U.S. local government entities;
- Bankers’ acceptances of certain banks;

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

- Certain commercial paper;
- Local government investment pools;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market fund;
- Guaranteed investment contracts.

The School had no investments as of June 30, 2018.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Building improvements	\$ 462,815	\$ 246,469	\$ -	\$ 709,284
Equipment	<u>134,611</u>	<u>55,587</u>	<u>-</u>	<u>190,198</u>
Total capital assets being depreciated	<u>597,426</u>	<u>302,056</u>	<u>-</u>	<u>899,482</u>
Less accumulated depreciation:	<u>(62,943)</u>	<u>(63,254)</u>	<u>-</u>	<u>(126,197)</u>
Total capital assets being depreciated, net	<u>\$ 534,483</u>	<u>\$ 238,802</u>	<u>\$ -</u>	<u>\$ 773,285</u>

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>	
Instruction	<u>\$ 63,254</u>

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. Eligible employees of the Pueblo School for Arts and Sciences 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.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

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

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

Contributions provisions as of June 30, 2018: Eligible employees and Pueblo School for Arts and Sciences 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%

Rates 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 Pueblo School for Arts and Sciences is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Pueblo School for Arts and Sciences were \$431,785 for the year ended June 30, 2018.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

At June 30, 2018, the Jones Avenue location reported a liability of \$10,377,785 for its proportionate share of the net pension liability, and the Fulton Heights location reported a liability of \$3,559,945. The net pension liability for the SCHDTF 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 Pueblo School for Arts and Sciences proportion of the net pension liability was based on Pueblo School for Arts and Sciences 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 Jones Avenue location’s proportion was 0.0320931532 percent, which was an increase of 0.004009369 from its proportion measured as of December 31, 2016. The Fulton Heights location’s proportion was 0.0110090800 percent, which was an increase of 0.001375355 from its proportion measured as of December 31, 2016

For the year ended June 30, 2018, the Jones Avenue location recognized pension expense of \$2,455,838, and the Fulton Heights location recognized pension expense of \$842,439. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Jones Avenue		Fulton Heights	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual Experience	\$ 190,804	\$ -	\$ 65,452	\$ -
Change s of assumptions or other inputs	2,649,834	16,815	908,986	5,768
Net difference between projected and actual earnings on pension plan investments	-	407,545	-	139,803
Changes in proportion and differences between contributions recognized and proportionate share of contributions	568,116	4,869	194,884	1,670
Contributions subsequent to the measurement date	166,681	N/A	57,178	N/A
Total	\$ 3,575,435	\$ 429,229	\$ 1,226,500	\$ 147,241

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$166,681 and \$57,178 were reported as deferred outflows of resources related to pensions for Jones Avenue and Fulton Heights, respectively, 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, 2018:	Jones Avenue	Fulton Heights
2019	\$ 1,871,954	\$ 642,145
2020	\$ 1,160,503	\$ 398,093
2021	\$ 100,389	\$ 34,437
2022	\$ (153,321)	\$ (52,594)
2023	\$ -	\$ -
Thereafter	\$ -	\$ -

Actuarial assumptions. The total pension 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 – 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 hired 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.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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

Several factors were considered in evaluating the long-term rate of return assumption for the 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 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.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

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:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan’s fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the 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 of 7.25 percent 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 Bond Buyer, 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 percent.

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 rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 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:

Proportionate share of the net pension liability	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Jones Avenue	\$ 13,108,908	\$ 10,377,785	\$ 8,152,232
Fulton Heights	\$ 4,496,816	\$ 3,559,945	\$ 2,796,502

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 ratio for each division within the next 30 years.

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- 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.
- 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 Jones Avenue location reported a liability of \$10,377,785, and the Fulton Heights location reported a liability of \$3,559,945 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 SB 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 pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
Jones Avenue	7.25%	\$ 4,688,593
Fulton Heights	7.25%	\$ 1,608,352

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$4,844,415 of the Jones Avenue location and \$1,661,805 of the Fulton Heights location the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

Health Care Trust Fund

Plan description. Eligible employees of the Pueblo School for Arts and Sciences 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.

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.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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.

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 Pueblo School for Arts and Sciences is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from Pueblo School for Arts and Sciences were \$23,320 for the year ended June 30, 2018.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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

At June 30, 2018, the Jones Avenue location reported a liability of \$236,985, and the Fulton Heights location reported a liability of \$81,294 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 Pueblo School for Arts and Sciences proportion of the net OPEB liability was based on Pueblo School for Arts and Sciences contributions to the HCTF for calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Jones Avenue location proportion was 0.0182352056 percent, which was an increase of 0.0022720462 from its proportion measured as of December 31, 2016. At December 31, 2017, the Fulton Heights location proportion was 0.0062553168 percent, which was an increase of 0.0007793918 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Jones Avenue location recognized \$23,396, and the Fulton Heights location recognized \$8,026 of OPEB expense. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Jones Avenue		Fulton Heights	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,121	\$ -	\$ 384	\$ -
Changes of assumptions or other inputs	-	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	3,965	-	1,360
Changes in proportion and differences between contributions recognized and proportionate share of contributions	24,565	-	8,426	-
Contributions subsequent to the measurement date	8,887	N/A	3,049	N/A
Total	\$ 34,573	\$ 3,965	\$ 11,860	\$ 1,360

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

\$8,887 and \$3,049 were reported as deferred outflows of resources related to OPEB for Jones Avenue and Fulton Heights, respectively, 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, 2018:	Jones Avenue	Fulton Heights
2019	\$ 4,056	\$ 1,391
2020	\$ 4,056	\$ 1,391
2021	\$ 4,056	\$ 1,391
2022	\$ 4,056	\$ 1,391
2023	\$ 5,047	\$ 1,732
Thereafter	\$ 450	\$ 155

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

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

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

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.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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 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.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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.
- 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.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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%	

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 Pueblo School for Arts and Sciences 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 – Jones Avenue	\$ 230,464	\$ 236,985	\$ 244,838
Net OPEB Liability – Fulton Heights	\$ 79,057	\$ 81,294	\$ 83,988

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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

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

Based on the above assumptions and methods, the projection test indicates the 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:

Proportionate share of the net OPEB liability	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Jones Avenue	\$ 266,445	\$ 236,985	\$ 211,839
Fulton Heights	\$ 91,400	\$ 81,294	\$ 72,668

PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(CONTINUED)**

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.

NOTE 7 - 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 carries commercial insurance for these risks of loss, including worker’s compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal year

NOTE 8 – CONCENTRATION OF RISK

The School is funded directly by the District based on the District’s per pupil funding. For the fiscal year ended June 30, 2018, this funding accounted for approximately 94% of the School’s revenues.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

GRANTS

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse affect on the financial position of the School.

NOTE 10 - AMENDMENT TO COLORADO CONSTITUTION

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 amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2018 there was a \$144,650 restriction of fund balance reported in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment’s language in order to determine its compliance.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2018 audit period as required by Colorado Statute CRS 22-44-204(3).

REQUIRED SUPPLEMENTARY INFORMATION

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
SCHEDULE OF SCHOOL'S SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2018**

Jones Avenue:	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability (asset)	0.0320931532%	0.0377175090%	0.0372916025%	0.0376489497%	0.0377023613%
School's proportionate share of the net pension liability (asset)	\$ 10,377,785	\$ 11,229,961	\$ 5,703,487	\$ 5,102,697	\$ 4,808,926
School's covered payroll	\$ 1,480,419	\$ 1,692,829	\$ 1,625,159	\$ 1,577,221	\$ 1,519,902
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701.00%	663.38%	350.95%	323.52%	316.40%
Plan fiduciary net position as a percentage of the total pension liability	44.0%	43.1%	59.2%	62.8%	64.1%
Fulton Heights:	<u>2017</u>				
School's proportion of the net pension liability (asset)	0.0110090800%				
School's proportionate share of the net pension liability (asset)	\$ 3,559,945				
School's covered payroll	\$ 507,836				
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701.00%				
Plan fiduciary net position as a percentage of the total pension liability	44.0%				

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
SCHEDULE OF SCHOOL'S PAYROLL CONTRIBUTIONS - PENSION
JUNE 30, 2018

Jones Avenue:	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 275,802	\$ 306,910	\$ 281,640	\$ 259,137	\$ 236,041
Contributions in relation to the contractually required contribution	<u>(275,802)</u>	<u>(306,910)</u>	<u>(281,640)</u>	<u>(259,137)</u>	<u>(236,041)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 1,480,419	\$ 1,692,829	\$ 1,625,159	\$ 1,577,221	\$ 1,519,902
Contributions as a percentage of covered payroll	18.63%	18.13%	17.33%	16.43%	15.53%

Fulton Heights:	<u>2017</u>
Contractually required contribution	\$ 94,610
Contributions in relation to the contractually required contribution	<u>(94,610)</u>
Contribution deficiency (excess)	<u>\$ -</u>
School's covered payroll	\$ 507,836
Contributions as a percentage of covered payroll	18.63%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
SCHEDULE OF SCHOOL'S SHARE OF THE NET OPEB LIABILITY
JUNE 30, 2018**

Jones Avenue:	<u>2017</u>	<u>2016</u>
School's proportion of the net OPEB liability (asset)	0.0182352056%	0.0214390844%
School's proportionate share of the net OPEB liability (asset)	\$ 236,985	\$ 277,965
School's covered payroll	\$ 1,480,419	\$ 1,692,829
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.01%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.5%	16.7%

Fulton Heights:	<u>2017</u>
School's proportion of the net OPEB liability (asset)	0.0062553168%
School's proportionate share of the net OPEB liability (asset)	\$ 81,294
School's covered payroll	\$ 507,836
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.01%
Plan fiduciary net position as a percentage of the total OPEB liability	17.5%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
SCHEDULE OF SCHOOL PAYROLL CONTRIBUTIONS - OPEB
JUNE 30, 2018**

Jones Avenue:	2017	2016
Contractually required contribution	\$ 15,100	\$ 17,267
Contributions in relation to the contractually required contribution	(15,100)	(17,267)
Contribution deficiency (excess)	\$ -	\$ -
School's covered payroll	\$ 1,480,419	\$ 1,692,829
Contributions as a percentage of covered payroll	1.02%	1.02%

Fulton Heights:	2017
Contractually required contribution	\$ 5,180
Contributions in relation to the contractually required contribution	(5,180)
Contribution deficiency (excess)	\$ -
School's covered payroll	\$ 507,836
Contributions as a percentage of covered payroll	1.02%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources				
Tuition and fees	\$ 35,850	\$ 35,000	\$ 39,857	\$ 4,857
Grants and donations	30,000	147,167	145,375	(1,792)
Interest	4,500	4,500	3,429	(1,071)
Other	36,500	160,000	98,301	(61,699)
Total local sources	<u>106,850</u>	<u>346,667</u>	<u>286,962</u>	<u>(59,705)</u>
State sources				
State equalization	4,549,481	4,487,010	4,489,254	2,244
Other	164,241	94,858	101,124	6,266
Total state sources	<u>4,713,722</u>	<u>4,581,868</u>	<u>4,590,378</u>	<u>8,510</u>
Federal sources				
Other	196,500	237,761	221,488	(16,273)
Total federal sources	<u>196,500</u>	<u>237,761</u>	<u>221,488</u>	<u>(16,273)</u>
Total revenues	<u>5,017,072</u>	<u>5,166,296</u>	<u>5,098,828</u>	<u>(67,468)</u>
EXPENDITURES				
Instruction	2,845,246	2,924,630	2,964,385	(39,755)
Support services	2,093,381	2,054,092	2,000,594	53,498
Facilities acquisition and construction	78,445	463,259	495,056	(31,797)
Total expenditures	<u>5,017,072</u>	<u>5,441,981</u>	<u>5,460,035</u>	<u>(18,054)</u>
Net change in fund balance	-	(275,685)	(361,207)	(85,522)
Fund balance, beginning, as restated	-	275,685	987,801	712,116
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 626,594</u>	<u>\$ 626,594</u>

See the accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
GENERAL FUND BALANCE SHEET BY LOCATION
JUNE 30, 2018**

	<u>Jones Avenue</u>	<u>Fulton Heights</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,030,175	\$ -	\$ 1,030,175
Intergovernmental receivables	-	62,046	62,046
Due from other funds	(12,967)	12,967	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,017,208</u>	<u>\$ 75,013</u>	<u>\$ 1,092,221</u>
LIABILITIES			
Accounts payable	\$ 116,058	\$ -	\$ 116,058
Intergovernmental payables	83,687	-	83,687
Accrued salaries and benefits	169,944	68,493	238,437
Unearned revenue	20,925	6,520	27,445
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>390,614</u>	<u>75,013</u>	<u>465,627</u>
FUND BALANCE			
Restricted for emergencies	144,650	-	144,650
Unassigned	481,944	-	481,944
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>626,594</u>	<u>-</u>	<u>626,594</u>
Total Liabilities and Fund Balance	<u>\$ 1,017,208</u>	<u>\$ 75,013</u>	<u>\$ 1,092,221</u>

See the accompanying independent auditor's report.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND BY LOCATION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Jones Avenue</u>	<u>Fulton Heights</u>	<u>Total</u>
REVENUES			
Local sources	\$ 150,710	\$ 136,252	\$ 286,962
State sources	3,484,405	1,105,973	4,590,378
Federal sources	22,699	198,789	221,488
	<u>3,657,814</u>	<u>1,441,014</u>	<u>5,098,828</u>
Total revenues			
EXPENDITURES			
Instruction	2,150,228	814,157	2,964,385
Support services	1,411,187	589,407	2,000,594
Facilities acquisition and construction	273,803	221,253	495,056
	<u>3,835,218</u>	<u>1,624,817</u>	<u>5,460,035</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	(177,404)	(183,803)	(361,207)
OTHER FINANCING SOURCES (USES)			
Contributions	(87,082)	87,082	-
	<u>(87,082)</u>	<u>87,082</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(264,486)	(96,721)	(361,207)
Fund balance - beginning, as restated	891,080	96,721	987,801
	<u>891,080</u>	<u>96,721</u>	<u>987,801</u>
Fund balance, ending	<u>\$ 626,594</u>	<u>\$ -</u>	<u>\$ 626,594</u>

See the accompanying independent auditor's report.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF NET POSITION BY LOCATION
JUNE 30, 2018**

	<u>Jones Avenue</u>	<u>Fulton Heights</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,030,175	\$ -	\$ 1,030,175
Intergovernmental receivables	-	62,046	62,046
Internal balances	(12,967)	12,967	-
Capital assets, net of accumulated depreciation	477,039	296,246	773,285
 Total assets	 <u>1,494,247</u>	 <u>371,259</u>	 <u>1,865,506</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	3,575,435	1,226,500	4,801,935
Deferred OPEB outflows	34,573	11,859	46,432
 Total deferred outflows of resources	 <u>3,610,008</u>	 <u>1,238,359</u>	 <u>4,848,367</u>
LIABILITIES			
Accounts payable	116,058	-	116,058
Intergovernmental payables	83,687	-	83,687
Accrued salaries and benefits	169,944	68,493	238,437
Unearned revenue	20,925	6,520	27,445
Noncurrent liabilities:			
Due in more than one year			
Net pension liability	10,377,785	3,559,945	13,937,730
Net OPEB liability	236,985	81,294	318,279
 Total liabilities	 <u>11,005,384</u>	 <u>3,716,252</u>	 <u>14,721,636</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	429,229	147,241	576,470
Deferred OPEB inflows	3,965	1,360	5,325
 Total deferred inflows of resources	 <u>433,194</u>	 <u>148,601</u>	 <u>581,795</u>
NET POSITION			
Investment in capital assets	477,039	296,246	773,285
Restricted for emergencies	144,650	-	144,650
Unrestricted	(6,956,012)	(2,551,481)	(9,507,493)
 Total net position (deficit)	 <u>\$ (6,334,323)</u>	 <u>\$ (2,255,235)</u>	 <u>\$ (8,589,558)</u>

See the accompanying independent auditor's report.

**PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF ACTIVITIES BY LOCATION
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Jones Avenue</u>	<u>Fulton Heights</u>	<u>Total</u>
REVENUES:			
General revenues:			
Per Pupil Revenue	\$ 3,404,797	\$ 1,084,457	\$ 4,489,254
Interest	3,414	15	3,429
Contribution	(87,082)	87,082	-
Other	86,786	2,607	89,393
Program revenues:			
Charges for services	27,035	7,351	34,386
Operating grants and contributions	80,740	326,462	407,202
Capital grants and contributions	55,042	20,122	75,164
	<u>3,570,732</u>	<u>1,528,096</u>	<u>5,098,828</u>
EXPENSES:			
Instruction expenses	2,685,545	2,515,177	5,200,722
Supporting services	1,339,229	1,336,371	2,675,600
Facilities acquisition and construction	70,878	148,628	219,506
Total liabilities	<u>4,095,652</u>	<u>4,000,176</u>	<u>8,095,828</u>
Change in net position	(524,920)	(2,472,080)	(2,997,000)
Net position, beginning, as restated (deficit)	<u>(5,809,403)</u>	<u>216,845</u>	<u>(5,592,558)</u>
Net position, ending (deficit)	<u>\$ (6,334,323)</u>	<u>\$ (2,255,235)</u>	<u>\$ (8,589,558)</u>

See the accompanying independent auditor's report.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - JONES AVENUE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Local sources			
Tuition and fees	\$ 28,000	\$ 32,383	\$ 4,383
Grants and donations	16,500	21,635	5,135
Interest	4,500	3,414	(1,086)
Other	155,000	93,278	(61,722)
Total local sources	<u>204,000</u>	<u>150,710</u>	<u>(53,290)</u>
State sources			
State equalization	3,401,159	3,404,797	3,638
Other	77,323	79,608	2,285
Total state sources	<u>3,478,482</u>	<u>3,484,405</u>	<u>5,923</u>
Federal sources			
Other	33,403	22,699	(10,704)
Total federal sources	<u>33,403</u>	<u>22,699</u>	<u>(10,704)</u>
Total revenues	<u>3,715,885</u>	<u>3,657,814</u>	<u>(58,071)</u>
EXPENDITURES			
Instruction	2,119,559	2,150,228	(30,669)
Support services	1,435,452	1,411,187	24,265
Facilities acquisition and construction	272,909	273,803	(894)
Total expenditures	<u>3,827,920</u>	<u>3,835,218</u>	<u>(7,298)</u>
Excess (deficiency) of revenues over expenditures	(112,035)	(177,404)	(65,369)
OTHER FINANCING SOURCES (USES)			
Contributions	-	(87,082)	(87,082)
Net change in fund balance	(112,035)	(264,486)	(152,451)
Fund balance, beginning	112,035	891,080	779,045
Fund balance, ending	<u>\$ -</u>	<u>\$ 626,594</u>	<u>\$ 626,594</u>

See the accompanying independent auditors' report.

PUEBLO SCHOOL FOR ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - FULTON HEIGHTS
FOR THE YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Local sources			
Tuition and fees	\$ 8,000	\$ 7,474	\$ (526)
Grants and donations	130,667	123,740	(6,927)
Interest	-	14	14
Other	5,000	5,024	24
Total local sources	<u>143,667</u>	<u>136,252</u>	<u>(7,415)</u>
State sources			
State equalization	1,085,851	1,084,457	(1,394)
Other	17,534	21,516	3,982
Total state sources	<u>1,103,385</u>	<u>1,105,973</u>	<u>2,588</u>
Federal sources			
Other	204,359	198,789	(5,570)
Total federal sources	<u>204,359</u>	<u>198,789</u>	<u>(5,570)</u>
Total revenues	<u>1,451,411</u>	<u>1,441,014</u>	<u>(10,397)</u>
EXPENDITURES			
Instruction	805,071	814,157	(9,086)
Support services	618,640	589,407	29,233
Facilities acquisition and construction	190,350	221,253	(30,903)
Total expenditures	<u>1,614,061</u>	<u>1,624,817</u>	<u>(10,756)</u>
Excess (deficiency) of revenues over expenditures	(162,650)	(183,803)	(21,153)
OTHER FINANCING SOURCES (USES)			
Contributions	-	87,082	87,082
Net change in fund balance	(162,650)	(96,721)	65,929
Fund balance, beginning	162,650	96,721	(65,929)
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying independent auditors' report.