

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2018

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2018

TABLE OF CONTENTS

FINANCIAL SECTION	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL SECTION	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Combining Governmental Fund Balance Sheet	11
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	13
Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) - General Fund	41
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) - Designated Purpose Grants Fund	42
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) - Need Foundation Fund	43
Schedule of the District's Proportionate Share of the Net Pension Liability	44
Schedule of Contributions and Related Ratios - Pension	45
Schedule of the District's Proportionate Share of the Net OPEB Liability	46
Schedule of Contributions and Related Ratios - OPEB	47
SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) - Capital Projects Fund	48
COLORADO DEPARTMENT OF EDUCATION AUDITOR'S INTEGRITY REPORT	
Colorado Department of Education Auditor's Integrity Report	49
SINGLE AUDIT SECTION - UNIFORM GUIDANCE REPORTS	
Schedule of Expenditures of Federal Awards	50
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	51
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	53
Schedule of Findings and Questioned Costs	55

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Pikes Peak Board of Cooperative Educational Services
Colorado Springs, Colorado

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the Pikes Peak Board of Cooperative Educational Services (BOCES) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the BOCES 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 risk 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, I express no such opinion. An audit 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the BOCES as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the District's proportionate share of the net pension and OPEB liabilities, the schedule of contributions and related ratios (pension and OPEB), and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BOCES basic financial statements as a whole. The individual fund financial statements and Colorado Department of Education Auditor's Integrity Report is presented for additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The individual fund financial statements, Colorado Department of Education Auditor's Integrity Report and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the individual fund financial statements, Colorado Department of Education Auditor's Integrity Report and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 2, 2018, on my consideration of the BOCES internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BOCES internal control over financial reporting and compliance.

Colorado Springs, Colorado
November 2, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

As management of Pikes Peak Board of Cooperative Educational Services (BOCES), we offer readers of the basic financial statements this narrative overview and analysis of the financial activities of the BOCES for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the information furnished in our financial statements.

Financial Highlights

Government-Wide Financial Statements

- The BOCES' total net position is (\$12,908,267) for the fiscal year ending June 30, 2018. It decreased substantially due to the new GASB 68 and GASB 75 requirements. These new rules require that the government-wide *Statement of Net Position* includes a net pension liability and OPEB amounts. Until these new rules were put into place, pension and OPEB liabilities have not been considered a BOCES liability due to the fact that the BOCES pays all amounts (employer and employee shares) owed to PERA each month during the payroll process. That has not changed and BOCES will continue to pay the amount it owes to PERA each month.
- Also, you will see that our net position for the prior audit year, 2016-17, was (\$10,991,752). Due to GASB 75 Other Post-retirement Employment Benefits (OPEB), our beginning net position had to be restated to (11,877,780), the difference is \$886,028. This is in compliance with GASB requirements.
- For more information on GASB 68 and 71, please refer to note 5 and pages 33 and 34.

Major Fund Financial Statements

- The combined balance sheet of the BOCES shows assets exceeding liabilities at the close of the most recent fiscal year by \$2,544,845. Of this amount, \$10,037 is assigned in the NEED Foundation which will be used to support needs that the School of Excellence brings to the Foundation Board.
- During 2017-2018 the BOCES received a total of \$1,146,011 in Federal Aid Funds. This is a decrease of \$69,387 over the prior year and represents 10.1% of total revenues.
- The Capital Fund was funded with a transfer of \$10,000 from the General fund's unassigned fund balance in the 17-18 fiscal year.
 - At the beginning of the fiscal year an unexpected building expense surfaced, BOCES had to replace an air conditioner compressor which came in at a cost of \$27,194.00. BOCES also added a fence around the front entrance of SOE for an extra layer of safety for the students who attend SOE.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to BOCES' basic financial statements. The BOCES' basic financial statements comprise of three components: 1) government-wide financial statements, 2) major fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the BOCES' finances, in a manner similar to a private-sector business.

The *statement of net position (a.k.a., net assets)* presents information on all of the BOCES' 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 BOCES is improving or deteriorating.

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

It should be noted that the net position decreased by \$10,299,587 over the past 4 fiscal years due to the new GASB 68 and 75 rules that took affect with the 2013-2014 and 2017-2018 fiscal years. This is a significant decrease in net position but is not necessarily an indicator that the BOCES financial position is deteriorating because the comparison between the 2014-2015-2016-2017 net position and prior years compares significantly different sets of numbers. Rather, this decrease reflects a shift in what is now required to be included on government-wide financial statements.

The *statement of activities* presents information showing how the government'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.

The government-wide financial statements distinguish functions of the BOCES 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 BOCES include instruction, pupil activities, instructional support, general and administration, business, and transportation.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The BOCES, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement. The funds of the BOCES are divided into three categories: general fund, designated purpose grants, NEED Foundation, and capital projects fund.

Governmental Funds. All of the BOCES' activities are reported in governmental funds, which focus on the determination of the financial position and change in financial position, not on income determination. Statements are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the BOCES' programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The BOCES adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the general fund, designated purpose grants fund, and NEED Foundation to demonstrate compliance with these budgets, and is reported elsewhere in this report as required supplementary information. GASB Statement No. 34 only requires a budgetary comparison for the general fund and for each major individual special revenue fund for which an annual budget is legally adopted.

Special Revenue Funds

Designated Purpose Grants – BOCES maintains a separate fund for special grant funds received from federal and state governments. These funds are designated for each school district within BOCES' service area for special use per contract or projects of mutual benefit to all members and associate districts.

NEED Foundation – Originally the NEED Foundation fund had been maintained for payment of debt and maintenance for the Pikes Peak BOCES School of Excellence building. This fund was used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that were restricted to expenditures for specified purposes. Since those COPs have now been paid off and the school is in a new location, the NEED Foundation will continue in its effort to support the needs of the School of Excellence. A "needs" list was brought to the NEED Foundation Board in 2015-2016 in order to determine how best to spend the current funds available as well as creating fundraising plans for future needs. No funds were used in 2017-18.

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

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

Other information in addition to the basic financial statements and accompanying notes is presented in the form of certain required supplementary information for budgetary comparison.

Government-Wide Financial Analysis

- In the case of the BOCES General Fund this year, assets were below liabilities by (\$12,908,267) at the close of the most recent fiscal year due to the implementation of the new GASB 68, 71 and 75 requirements.
- Capital Outlay is reported in the governmental funds as expenditures. The BOCES has invested in capital assets net of accumulated depreciation \$10,372,335. These capital assets are used to provide services to students; consequently, these assets are not available for future spending.
- At the end of the current fiscal year, the BOCES reported an increase in fund balance of \$284,233 in the General Fund resulting in an ending fund balance of \$2,487,985.

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
NET POSITION

	<u>Governmental Activities</u>	
	2018	2017
Total Assets	\$ 13,918,470	\$13,468,655
Deferred Outflows of Resources*	<u>15,094,988</u>	<u>12,258,061</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 29,013,458</u>	<u>\$25,726,716</u>
Current Liabilities	\$ 1,001,290	\$ 511,593
Noncurrent Liabilities		
Compensated Absences	65,111	46,668
Net Pension Liability*	<u>37,877,454</u>	<u>35,796,030</u>
Total Noncurrent Liabilities	<u>\$ 37,942,565</u>	<u>\$35,842,698</u>
Total Liabilities	\$ 38,943,855	\$36,354,291
Deferred Inflows of Resources*	<u>2,977,870</u>	<u>364,177</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 41,921,725</u>	<u>\$36,718,468</u>
Net Position:		
Invested in Capital Assets	\$ 10,372,335	\$10,654,975
Unrestricted (deficit)	<u>(23,280,602)</u>	<u>(21,646,727)</u>
Total Net Position	<u>\$(12,908,267)</u>	<u>\$(10,991,752)</u>

- The new GASB 68 and 78 requires that we book the net pension and OPEB liabilities on the government-wide financial statement back to fiscal year 2013-2014 and 2017-2018. Over the three year period this has resulted in a decrease of \$10,299,587 in net position. The above asterisked entries are new requirements and are discussed in further detail on page 21, Note 5, as well as on pages 33 and 34.
- Most of BOCES' governmental activities were financed by school districts within the BOCES' service area. The General Fund accounted for 70.8% of operating funding, and 29.2% came from Designated Purpose Grants.

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
 CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	2018	2017
Program Revenues:		
Charges for Services	\$ 7,602,649	\$ 7,880,879
Operating Grants and Contributions	3,299,377	3,290,904
Capital Grants and Contributions	-	-
General Revenues:		
Unrestricted	361,591	219,674
Investment Earnings	21,404	13,215
Gain (loss) on sale of property	-	-
Total Revenues:	<u>\$11,285,021</u>	<u>\$ 11,404,672</u>
Expenses:		
Instruction	\$ 6,895,661	\$11,201,663
Supporting Services	5,419,847	8,586,081
Other (facility acquisitions)		
Interest on Debt	-	-
Total Expenses:	<u>\$12,315,508</u>	<u>\$19,787,744</u>
Increase (decrease) in net position	(1,030,487)	(8,383,072)
Beginning Net Position, as restated	<u>(11,877,780)</u>	<u>(2,608,680)</u>
Ending Net Position	<u><u>\$(12,908,267)</u></u>	<u><u>\$(10,991,752)</u></u>

Financial Analysis of BOCES Funds

BOCES uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, BOCES' governmental funds reported combined ending fund balances of \$2,544,845. At year end, \$2,412,985 of fund balance is *unassigned - unrestricted fund balance*, which is available for spending at BOCES discretion.

Capital Assets

The BOCES added \$12,499 in capital additions for the year to add a new vehicle for the Executive Director. The old Executive vehicle was repurposed to a Tech itinerate that travel's out to the member districts.

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
 CHANGES IN FUND BALANCE

	General Fund	Special Revenue Funds	Capital Projects Funds	Total 2018	Total 2017
Revenues:					
Local Sources	\$ 7,985,570	\$ 74	\$ -	\$ 7,985,644	\$ 8,113,768
State Sources	616,357	1,537,009	-	2,153,366	2,075,506
Federal Sources	229,216	916,795	-	1,145,011	1,215,398
Total Revenues	8,831,143	2,453,878	-	11,284,021	11,404,672
Expenses:					
Instruction	\$ 3,886,662	\$ 2,199,546	-	\$ 6,086,208	\$ 6,367,115
Supporting Services/Facilities	4,650,248	254,258	51,549	4,956,055	4,888,908
Other	-	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-	29,850
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenses	8,536,910	2,453,804	51,549	11,042,263	11,285,873
Other Financing Sources (Uses):					
Transfer In	-	-	10,000	10,000	50,000
Transfer Out	(10,000)	-	-	(10,000)	(50,000)
Total Other:	(10,000)	-	10,000	-	-
Increase (Decrease) in Fund Balance	284,233	74	(41,549)	242,758	118,799
Beginning Fund Balance	2,203,752	9,963	88,372	2,302,087	\$ 2,183,288
Ending Fund Balance	\$ 2,487,985	\$ 10,037	\$ 46,823	\$ 2,544,845	\$ 2,302,087

Major Funds Budgetary Highlights

The PPBOCES Board approved the original budget prior to June 30, 2018, based on projected enrollment and services for the following fiscal year.

Colorado statutes permit transferring budgeting amounts from one object or purpose to another within the same fund. Board policy allows management to transfer budgets between objects or purposes without obtaining authorization from the PPBOCES Board, provided the transfers are not into or out of salary accounts.

The PPBOCES Board approves any Supplemental Appropriation Resolutions subsequent to July 01, 2018, giving budget approval allowing expenditure of additional funds received during the fiscal year.

The audit reflects both the amended (final) budget amount as well as the adopted (original) budget amount. The final budget request is brought to the PPBOCES board in January, as allowed by C.R.S., in order to more accurately reflect revenues and expenditures each fiscal year. At that point in time actual amounts are better known due to the facts that any open staff positions have been filled, students are in attendance, and the audit has been completed. Adopting an amended (final) budget affords tighter control over spending by requiring smaller cushions having to be built into the budget for any unknowns.

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2018

Requests for Information

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

Finance Department
Pikes Peak Board of Cooperative Educational Services
2883 South Circle Drive, Colorado Springs, CO 80906
719-622-2091

**BASIC FINANCIAL
STATEMENTS**

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF NET POSITION
JUNE 30, 2018

Assets	
Current assets:	
Cash and cash equivalents	\$ 2,801,736
Accounts receivable	412,472
Grants receivable	331,927
Total current assets	<u>3,546,135</u>
Capital assets:	
Land	967,719
Depreciable assets	10,919,246
Accumulated depreciation	(1,514,630)
Capital assets, net of depreciation	<u>10,372,335</u>
Total assets	<u>13,918,470</u>
Deferred outflows of resources - Pension: See note 5	<u>15,064,407</u>
Deferred outflows of resources - OPEB: See note 6	<u>30,581</u>
Liabilities	
Current liabilities:	
Deficit cash	230,939
Accounts payable	15,250
Other current liabilities	6,520
Accrued salaries and benefits	409,613
Unearned revenue	206,239
Unearned grant revenue	132,729
Total current liabilities	<u>1,001,290</u>
Noncurrent liabilities:	
Compensated absences	65,111
Net OPEB liability	845,650
Net pension liability	37,031,804
Total noncurrent liabilities	<u>37,942,565</u>
Total liabilities	<u>38,943,855</u>
Deferred inflows of resources: See note 5	<u>2,928,306</u>
Deferred inflows of resources - OPEB: See note 6	<u>49,564</u>
Net position	
Invested in capital assets, net of related debt	10,372,335
Unrestricted (deficit)	<u>(23,280,602)</u>
Total net position	<u>\$ (12,908,267)</u>

See accompanying notes to basic financial statements

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF ACTIVITIES
FISCAL YEAR END JUNE 30, 2018**

Primary Government Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 6,895,661	\$ 4,064,904	\$ 2,621,040	\$ -	\$ (209,717)
Supporting services	5,419,847	3,537,745	678,337	-	(1,203,765)
Facilities acquisitions	-	-	-	-	-
Total governmental activities	<u>\$ 12,315,508</u>	<u>\$ 7,602,649</u>	<u>\$ 3,299,377</u>	<u>\$ -</u>	<u>\$ (1,413,482)</u>
General revenues					
					\$ 21,404
					<u>361,591</u>
					382,995
					<u>(1,030,487)</u>
					(11,877,780)
					<u>\$ (12,908,267)</u>

See accompanying notes to basic financial statements

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General Fund</u>	<u>Designated Purpose Grants Fund</u>	<u>Need Foundation Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 2,744,876	\$ -	\$ 10,037	\$ 46,823	\$ 2,801,736
Accounts receivable	412,472	-	-	-	412,472
Grants receivable	37,195	294,732	-	-	331,927
Total Assets	<u>\$ 3,194,543</u>	<u>\$ 294,732</u>	<u>\$ 10,037</u>	<u>\$ 46,823</u>	<u>\$ 3,546,135</u>
Liabilities					
Liabilities:					
Deficit cash	\$ -	\$ 230,939	\$ -	\$ -	\$ 230,939
Accounts payable	15,250	-	-	-	15,250
Other current liabilities	6,520	-	-	-	6,520
Unearned revenue	206,239	-	-	-	206,239
Unearned grant revenue	68,936	63,793	-	-	132,729
Accrued salaries and benefits	409,613	-	-	-	409,613
Total liabilities	<u>706,558</u>	<u>294,732</u>	<u>-</u>	<u>-</u>	<u>1,001,290</u>
Fund balances					
Spendable:					
General fund-assigned	75,000	-	-	-	75,000
Special revenue funds-committed	-	-	10,037	-	10,037
Capital projects fund-assigned	-	-	-	46,823	46,823
General fund-unassigned	2,412,985	-	-	-	2,412,985
Total fund balances	<u>2,487,985</u>	<u>-</u>	<u>10,037</u>	<u>46,823</u>	<u>2,544,845</u>
Total Liabilities and Fund Balances	<u>\$ 3,194,543</u>	<u>\$ 294,732</u>	<u>\$ 10,037</u>	<u>\$ 46,823</u>	<u>\$ 3,546,135</u>

See accompanying notes to basic financial statements

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
JUNE 30, 2018**

Governmental funds total fund balances	\$ 2,544,845
Add:	
Capital assets used in governmental activities are not considered current financial resources and, therefore, not reported in the governmental funds	11,886,965
Deferred outflows from pension and OPEB liability	15,094,988
Deduct:	
Accumulated depreciation is not recognized in the governmental funds because capital assets are expensed at the time of acquisition	(1,514,630)
Net pension liability	(37,031,804)
Net OPEB liability	(845,650)
Compensated absences	(65,111)
Deferred inflows from pension and OPEB liability	(2,977,870)
Governmental activities net position	<u>\$ (12,908,267)</u>

See accompanying notes to basic financial statements

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Designated Purpose Grants Fund</u>	<u>Need Foundation Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Local sources	\$ 7,985,570	\$ -	\$ 74	\$ -	\$ 7,985,644
State sources	616,357	1,537,009	-	-	2,153,366
Federal sources	229,216	916,795	-	-	1,146,011
Total revenues	<u>8,831,143</u>	<u>2,453,804</u>	<u>74</u>	<u>-</u>	<u>11,285,021</u>
Expenditures					
Current:					
Instruction	3,886,662	2,199,546	-	-	6,086,208
Supporting services	4,650,248	254,258	-	51,549	4,956,055
Facilities acquisition and construction	-	-	-	-	-
Total expenditures	<u>8,536,910</u>	<u>2,453,804</u>	<u>-</u>	<u>51,549</u>	<u>11,042,263</u>
Excess(deficiency) of revenues over(under)					
Expenditures	294,233	-	74	(51,549)	242,758
Other financing sources (uses)					
Transfer in	-	-	-	10,000	10,000
Transfer (out)	(10,000)	-	-	-	(10,000)
Total other financing sources (uses)	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Net change in fund balances	<u>284,233</u>	<u>-</u>	<u>74</u>	<u>(41,549)</u>	<u>242,758</u>
Fund balances at beginning of year	<u>2,203,752</u>	<u>-</u>	<u>9,963</u>	<u>88,372</u>	<u>2,302,087</u>
Fund balances at end of year	<u>\$ 2,487,985</u>	<u>\$ -</u>	<u>\$ 10,037</u>	<u>\$ 46,823</u>	<u>\$ 2,544,845</u>

See accompanying notes to basic financial statements

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2018**

Governmental funds changes in fund balances	\$	242,758
Add:		
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay reported as an expenditure in the governmental funds functions.		12,499
Deduct:		
Change in compensated absences		(18,443)
Government funds report pension and OPEB expenses as expenditures when paid. Pension and OPEB obligations in the statement of activities is allocated and expensed for future pension costs. Change in net pension and OPEB liability and deferred inflows/outflows		(972,162)
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.		(295,139)
Governmental activities change in net position	<u>\$</u>	<u>(1,030,487)</u>

See accompanying notes to basic financial statements

PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - **Summary of Significant Accounting Policies**

The financial statements of Pikes Peak Board of Cooperative Educational Services (the BOCES) have been prepared to conform with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

Reporting Entity

For financial reporting purposes, the accompanying financial statements include all of the operations over which the BOCES is financially accountable. The BOCES is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity", as amended by GASB 39 and 61, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the BOCES or its officials appoint a majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the BOCES or the nature and significance of the relationship between the BOCES and the organization is such that exclusion would cause the BOCES financial statements to be incomplete. Applying this definition, BOCES management has determined that the Need Foundation reportable within the accompanying financial statements. The Foundation financial activities have been blended (reported as if part of the BOCES) with those of the BOCES. The Foundation does not publish individual component unit financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the BOCES. The effect of inter-fund activity has been removed from these financial statements. Governmental activities normally are supported by intergovernmental revenues, state and federal grants.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues from the State of Colorado and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds (General Fund, Designated Purpose Grants Fund, Capital Projects Fund, and the Need Foundation) are reported as separated columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases net current assets and unreserved fund balance as measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The Governmental Funds are accounted for on the “flow of current financial resources” measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. Governmental funds use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exceptions of general long-term debt which is recognized when due and certain accrued sick and personal pay which are accounted for as expenditures when expected to be liquidated with expendable available financial resources.

Governmental Funds

The accounts of the BOCES are organized on the basis of fund, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and means by which spending activities are controlled. The major funds presented in the accompanying basic financial statements are as follows:

Major Governmental Funds

1. General Fund – the general operating fund of the BOCES; used to account for all resources that are not required legally or by sound financial management to be accounted for in another fund.
2. Designated Purpose Grants Fund (Special Revenue Fund) – this fund accounts for state and federal grants.
3. Need Foundation Fund (Special Revenue Fund) – the Need Foundation Fund is used to account for the proceeds of specific revenue sources, like donations, (other than debt service or capital projects) that are restricted or committed to expenditures for a specified purpose of special needs to students.
4. Capital Projects Fund-is used to account for revenues and expenditures related to the BOCES construction and capital improvement.

Cash and Cash Equivalents

Cash of some funds are pooled into common pooled accounts in order to maximize investment opportunities. An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents". Negative balances incurred in pooled cash at year-end are treated as a liability of that fund.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Member and associate member receivables were \$378,264, other receivables of \$34,208 and grant receivables were \$37,195 at year-end.

Capital Assets

Capital assets, which include property, vehicles and equipment, are utilized for general BOCES operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable government columns in the government-wide financial statements.

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the government fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The BOCES does not capitalize interest on the construction of capital assets.

The monetary threshold for capitalization of assets is \$5,000. The BOCES capital assets are depreciated using the straight-line method over the estimated useful lives of the fixed assets. Estimate useful lives are:

Vehicles	8 years
Furniture, fixtures and equipment	5 to 15 years
Buildings and improvements	20 to 40 years

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 future period and so will not be recognized as an outflow of the

resources (expenditure) until that time. In addition to liabilities, the statement of financial position reports a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenues) until that time.

Unearned Grant Revenue

Revenues on grants, which are restricted by the grant agreement for specific purposes, are recognized as revenue only after eligible grant costs have been incurred. Grant funds received in excess of grant expenditures are recorded as unearned revenues.

Compensated Absences

Compensated absences are payments to employees for accumulated vacation. BOCES employees may accumulate unused vacation up to a specified amount. Vacation is payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement. The entire compensated absences liability is reported in the government-wide financial statements.

Budgets and Budgeting Accounting

The BOCES follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budgets are required by state law for all funds. Prior to May 31, the Executive Director submits to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is adopted by formal resolution of the Board. Budgets may be revised until January 31st of the budget year.
4. Expenditures may not legally exceed appropriations at the fund level. The BOCES is authorized to transfer budgeted amounts between departments within any fund; however, the Board must approve any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Capital Projects Fund.
6. Budgets for the General Fund, Special Revenue Funds and Capital Projects Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Fund Equity

Net Position/Fund Balances - In the government-wide financial statements, net position are either shown as invested in capital assets net of related debt, with these assets essentially being nonexpendable; restricted when constraints placed on the net position are externally imposed; or unrestricted.

For the governmental fund presentation, fund balances that are classified as “nonspendable” include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example inventories and prepaid amounts. Fund balance should be reported as “restricted” when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of BOCES, should be reported as “committed” fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as “assigned” fund balance. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

For the classification of fund and net position balances, the BOCES considers an expenditure to be made from the most restrictive classification first, when more than one classification is available.

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Position

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

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - **Cash Deposits and Investments**

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

Cash	\$ 2,543,636
Colotrust	<u>27,161</u>
Total Cash and Investments	<u>\$ 2,570,797</u>

Deposits

The BOCES investment policies are approved by the Board of Education and governed by Colorado statute. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds. The pool is to be maintained by another financial institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The BOCES is authorized by Colorado State statutes to invest in the following:

- Obligations of the United States government and certain government agencies securities
- Certain international agency securities
- General obligation and revenue bonds of governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Guaranteed investment contracts
- Checking with interest savings accounts

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the BOCES deposits may not be returned to it. The BOCES does not have a deposit policy for custodial credit risk. At year-end the BOCES bank balance was \$2,955,067. Of the bank balance, \$501,000 was covered by FDIC insurance, and \$2,454,067 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institution through PDPA. The difference between bank balance and carrying balance is outstanding checks.

Investments

The BOCES had invested \$27,161 (fair value) in the Colorado Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. The Colorado Division of Securities administrates and enforces the requirements of creating and operating Colotrust. Investments of Colotrust consist of U.S. Treasury bills, notes, note strips

and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawals functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust.

Interest Rate Risk – The BOCES does not have a formal investment policy that limit investment maturities as a means of managing its exposure to fair value loss resulting from increasing interest rates. The Colorado revised statute 24-75-601 limit investment maturities to five years or less without governing board approval.

Credit Risk – State law limits investments for BOCES to U.S. treasury issues, other federally backed notes and credits, and other agency offerings (not based on derivatives) without limitation. Other investment instruments including bank obligations, general obligation bonds, and commercial paper are limited to at least one of the highest rating categories of at least one nationally recognized rating agency. State law further limits investments in money market funds that are organized according to the Federal Investment Company Act of 1940, as specified in rule 2a-7, as amended, as long as such rule does not increase remaining maturities beyond a maximum of three years. Investments in these funds require that the institution have assets in excess of \$1 billion or the highest credit rating from one or more of a nationally recognized rating agency. Standards and Poors rate COLOTRUST AAAM.

Note 3 - **Capital Assets**

A summary of changes in capital assets follows:

Governmental Activities

	<u>Balance</u> <u>July 1,2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,2018</u>
Non-depreciable assets:				
Land	\$ 967,719	\$ -	\$ -	\$ 967,719
Const. in progress	-	-	-	-
Total Non-depreciable	<u>\$ 967,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 967,719</u>
	<u>Balance</u> <u>July 1,2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,2018</u>
Depreciable Assets:				
Buildings & Sites	\$ 10,661,476	\$ -	\$ -	\$ 10,661,476
Equipment Furniture And Fixtures	138,527	-	-	138,527
Vehicles	<u>126,382</u>	<u>12,499</u>	<u>19,638</u>	<u>119,243</u>
Total Depreciable Assets	<u>\$ 10,926,385</u>	<u>\$ 12,499</u>	<u>\$ 19,638</u>	<u>\$ 10,919,246</u>

Less accumulated depreciation for:

Buildings & Sites	\$ 1,067,655	\$ 268,577	\$ -	\$ 1,336,232
Equipment Furniture And Fixtures	89,669	14,158	-	103,827
Vehicles	<u>81,805</u>	<u>12,404</u>	<u>19,638</u>	<u>74,571</u>
Total Accumulated Depreciation	<u>\$ 1,239,129</u>	<u>\$ 295,139</u>	<u>\$ 19,638</u>	<u>\$ 1,514,630</u>
Total Capital Assets, Net	<u>\$ 10,654,975</u>	<u>\$ 282,640</u>	<u>\$ -</u>	<u>\$ 10,372,335</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Regular instruction	<u>\$ 295,139</u>
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Note 4 - **Long-Term Debt**

The following is a summary of long-term debt:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Compensated Absences	<u>\$ 46,666</u>	<u>\$ 18,445</u>	<u>\$ -</u>	<u>\$ 65,111</u>
Totals	<u>\$ 46,666</u>	<u>\$ 18,445</u>	<u>\$ -</u>	<u>\$ 65,111</u>

Note 5 - **Defined Benefit Pension Plan**

Summary of Significant Accounting Policies

Pensions. The BOCES 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.

General Information about the Pension Plan

Plan description. Eligible employees of the BOCES 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. 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.
- The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:
 - Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
 - \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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.

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, 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. Eligible employees and the BOCES 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, 2018	For the Year Ended December 31, 2017
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	5.50%	5.00%
Total Employer Contribution Rate to the SCHDTF ¹	19.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the BOCES is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the BOCES were \$980,563 for the year ended June 30, 2018.

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

At June 30, 2018 the BOCES reported a liability of \$37,031,804 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The BOCES proportion of the net pension liability was based on BOCES 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 BOCES proportion was 0.1145203283%, which was a decrease of 0.00570060114 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the BOCES recognized pension expense of \$989,999. At June 30, 2018, the BOCES reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,011,320	\$ 155,900
Changes of assumptions or other inputs	\$ 11,603,196	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ 1,908,018	\$ 1,454,274
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 47,244	\$ 1,318,132
Contributions subsequent to the measurement date	\$ 494,629	N/A
Total	\$ 15,064,407	\$ 2,928,306

\$494,629 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a

reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2018:	
June 30, 2019	\$ 6,514,364
June 30, 2019	\$ 4,516,763
June 30, 2021	\$ 973,915
June 30, 2022	\$ (363,570)
June 30, 2023	\$ -
Thereafter	\$ -

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.90 – 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
Future 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

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by the PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

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
Future 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.

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.

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	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non US Fixed	1.84%	0.60%
Emerging Market Bonds	0.46%	3.90%
Real Estate	8.50%	4.90%
Opportunity Fund	6.0%	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.

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$44,808,483	\$37,031,804	\$29,255,125

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 <Insert Employer Year-End>.

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.lcg.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.

Note 6 - **Defined Benefit Other Post Employment (OPEB) Plan**

Summary of Significant Accounting Policies

OPEB. The BOCES 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.

General Information about the OPEB Plan

Plan description. Eligible employees of the BOCES 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.

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.

DPS Benefit Structure

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

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the 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 BOCES is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the BOCES were \$15,392 for the year ended June 30, 2018.

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

At June 30, 2018, the BOCES reported a liability of \$845,650 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 BOCES proportion of the net OPEB liability was based on the BOCES's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF .

At December 31, 2017, the BOCES's proportion was 0.0650700001 percent, which was a decrease of 0.0032682159 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the BOCES recognized OPEB expense (credit) of (\$6,579). At June 30, 2018, the BOCES reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,999	\$ -
Changes of assumptions or other inputs	\$ -	\$ -
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 14,148
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ -	\$ 35,416
Contributions subsequent to the measurement date	\$ 26,582	N/A
Total	\$ 30,581	\$ 49,564

\$26,582 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
June 30, 2019	\$ (9,709)
June 30, 2020	\$ (9,709)
June 30, 2021	\$ (9,709)
June 30, 2022	\$ (9,709)
June 30, 2023	\$ (6,172)
Thereafter	\$ (557)

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
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.

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

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

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

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

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

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

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

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

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

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

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

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

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate

ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non US Fixed	1.84%	0.60%
Emerging Market Bonds	0.46%	3.90%
Real Estate	8.50%	4.90%
Opportunity Fund	6.0%	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 BOCES 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	4.00%	5.00%	6.00%
Initial Medicare Part A trend	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 676,520	\$ 845,650	\$ 1,014,780

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 964,041	\$ 845,650	\$ 727,259

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 - **Defined Contribution Pension Plan**

Plan Description. The (CSSDTF) members of the Pikes Peak Board of Cooperative Educational Services may voluntarily contribute to the Voluntary Investment Program 401(k) Plan, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

Funding Policy. The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$18,500 in 2018 and \$18,000 in 2017). Beginning January 1, 2001, an employer match was legislated, which would match 100% of a member's eligible tax deferred retirement program contributions limited by 3.0% in 2002, 2.0% in 2003 and 1.0% in 2004 per payroll of the PERA-includable salary. Effective July 1, 2004, the State Legislature rescinded the matchmaking provision of this plan. The 401(k) Plan member contributions from the BOCES for the year ended June 30, 2018 were \$ 48,040. There were no employer contributions to the 401(k) Plan from the BOCES for the year ended June 30, 2018.

Note 8 - **Operating Leases**

The BOCES has operating leases for copiers. Monthly rentals are \$1,065. Lease expense as of June 30, 2018 was \$12,785.

The minimum annual rental commitments under these leases are as follows:

Year ended June 30:	
2019	<u>\$ 12,785</u>
Total	<u>\$ 12,785</u>

Note 9 - **Auditor's Integrity Report**

The Colorado Department of Education requires the inclusion of the Auditor's Integrity Report as a supplemental schedule to the audited financial statements. The Report is based on a prescribed basis of accounting that demonstrates compliance with the financial policies and procedures of the Colorado Department of Education.

Note 10- **Risk Management**

The BOCES carries commercial insurance for all risks of loss, including errors and omissions and property. Settled claims resulting from these risks have not exceeded commercial or BOCES coverage in any of the past three years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

Note 11 - **Accrued Teachers' Salaries and Employee Benefits**

Teachers' contracts are for a ten-month period; but are paid in twelve equal payments. At the end of the fiscal year an accrual exists for the difference between the amounts due on the contract and the amounts paid.

Note 12 - **Commitments, Contingencies and Compliance**

Tabor amendment - In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Article 10 Section 20 to the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments. The amendment does not specifically address BOCES. However, several legal opinions have been issued stating that BOCES itself is not subject to the requirements and restrictions of the TABOR amendment. There have been several recent court cases with organizations similar to BOCES, where the court has found that these organizations are not subject to TABOR since they are not a municipality and do not exercise independent "Government" power. A BOCES does not need to maintain emergency reserves required by TABOR as expenditures can fluctuate independently of TABOR.

Claims and Judgements -- The BOCES participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government.

If expenditures are disallowed due to noncompliance with grant program regulations, the BOCES may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited but the BOCES believes those disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the BOCES.

Note 13 - **Evaluation of Subsequent Events**

The BOCES management has evaluated subsequent events through November 2, 2018 (the date of the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues				
Local sources				
District payments	\$ 3,025,256	\$ 3,316,372	\$ 3,340,581	\$ 24,209
Tuition	4,481,115	4,481,115	4,064,904	(416,211)
Interest on investments	12,250	12,250	21,330	9,080
Technology sales	211,879	211,879	197,164	(14,715)
Other	22,501	229,680	361,591	131,911
Total local sources	<u>7,753,001</u>	<u>8,251,296</u>	<u>7,985,570</u>	<u>(265,726)</u>
State sources				
Gifted and talented	153,861	163,470	167,236	3,766
School to work alliance program	459,774	459,774	449,121	(10,653)
Total state sources	<u>613,635</u>	<u>623,244</u>	<u>616,357</u>	<u>(6,887)</u>
Federal sources				
Medicaid	160,000	160,000	229,216	69,216
Total federal sources	<u>160,000</u>	<u>160,000</u>	<u>229,216</u>	<u>69,216</u>
Total revenues	<u>8,526,636</u>	<u>9,034,540</u>	<u>8,831,143</u>	<u>(203,397)</u>
Expenditures				
Instruction:				
Salaries	2,830,442	2,928,810	2,708,832	219,978
Employee benefits	1,230,433	1,198,559	986,982	211,577
Purchase services	111,670	136,376	115,386	20,990
Supplies and materials	101,488	111,896	74,780	37,116
Capital outlay	3,293	2,543	45	2,498
Other	2,751	2,750	637	2,113
Total instruction	<u>4,280,077</u>	<u>4,380,934</u>	<u>3,886,662</u>	<u>494,272</u>
Support services:				
Salaries	2,520,106	2,576,672	2,601,867	(25,195)
Employee benefits	885,100	922,224	800,329	121,895
Purchase services	1,061,710	1,089,104	938,938	150,166
Supplies and materials	236,643	260,183	245,472	14,711
Capital outlay	33,300	31,573	10,005	21,568
Other	28,166	59,066	53,637	5,429
Total support services	<u>4,765,025</u>	<u>4,938,822</u>	<u>4,650,248</u>	<u>288,574</u>
Contingency	<u>1,424,003</u>	<u>1,908,536</u>	<u>-</u>	<u>1,908,536</u>
Total expenditures	10,469,105	11,228,292	8,536,910	2,691,382
Excess(deficiency) of revenues over (under) expenditures	<u>(1,942,469)</u>	<u>(2,193,752)</u>	<u>294,233</u>	<u>2,487,985</u>
Other financing sources (uses)				
Transfers (out)	(10,000)	(10,000)	(10,000)	-
Total other financing sources	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	<u>(1,952,469)</u>	<u>(2,203,752)</u>	<u>284,233</u>	<u>2,487,985</u>
Fund balances at beginning of year	1,952,469	2,203,752	2,203,752	-
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,487,985</u>	<u>\$ 2,487,985</u>

See accompanying independent auditors' report

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
DESIGNATED PURPOSE GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State sources	\$ 1,627,428	\$ 1,627,428	\$ 1,537,009	\$ (90,419)
Federal sources	901,047	901,047	916,795	15,748
Total revenues	<u>2,528,475</u>	<u>2,528,475</u>	<u>2,453,804</u>	<u>(74,671)</u>
Expenditures				
Instruction:				
Salaries	14,735	14,735	14,064	671
Employee benefits	3,094	3,094	3,765	(671)
Purchase services	2,087,365	2,087,365	2,178,001	(90,636)
Supplies and materials	3,716	3,716	3,716	-
Capital outlay	-	-	-	-
Total instruction	<u>2,108,910</u>	<u>2,108,910</u>	<u>2,199,546</u>	<u>(90,636)</u>
Support services:				
Salaries	35,800	35,800	35,800	-
Employee benefits	13,822	13,822	13,511	311
Purchase services	175,164	175,164	151,422	23,742
Supplies and materials	19,779	19,779	53,525	(33,746)
Capital outlay	-	-	-	-
Total support services	<u>244,565</u>	<u>244,565</u>	<u>254,258</u>	<u>(9,693)</u>
Contingency	<u>175,000</u>	<u>175,000</u>	<u>-</u>	<u>175,000</u>
Total expenditures	<u>2,528,475</u>	<u>2,528,475</u>	<u>2,453,804</u>	<u>74,671</u>
Excess(deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying independent auditors' report

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
NEED FOUNDATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Other income	\$ -	\$ -	\$ -	\$ -
Interest on investments	40	40	74	34
Total revenues	<u>40</u>	<u>40</u>	<u>74</u>	<u>34</u>
Expenditures				
Supporting services	3,500	3,500	-	3,500
Contingency	<u>6,470</u>	<u>6,470</u>	<u>-</u>	<u>6,470</u>
Total expenditures	<u>9,970</u>	<u>9,970</u>	<u>-</u>	<u>9,970</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(9,930)</u>	<u>(9,930)</u>	<u>74</u>	<u>10,004</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(9,930)</u>	<u>(9,930)</u>	<u>74</u>	<u>10,004</u>
Fund balances at beginning of year	<u>9,930</u>	<u>9,930</u>	<u>9,963</u>	<u>33</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,037</u>	<u>\$ 10,037</u>

See the accompanying independent auditors' report

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
 SCHEDULE OF THE BOCES PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST 10 FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
BOCES proportion (percentage) of the collective net pension liability	0.1145203283%	0.1202263397%	0.1220389688%	0.1200564435%
BOCES proportionate share of the collective pension liability	37,031,804	35,796,030	18,664,999	16,271,681
Employer's covered-employee payroll	5,282,687	5,395,984	5,318,429	5,029,499
BOCES proportionate share of the net pension liability as a percentage of it's employer's covered-employee payroll	14.27%	15.07%	28.49%	30.91%
Plan fiduciary net pension as a percentage of the total pension liability	43.96%	43.10%	59.20%	62.80%

The amounts presented for each fiscal year were determined as of December 31.

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS - PENSION
LAST 10 FISCAL YEARS**

As of June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 980,563	\$ 996,927	\$ 947,361	\$ 869,228
Contributions in relation to the statutorily required contributions	<u>980,563</u>	<u>996,927</u>	<u>947,361</u>	<u>869,228</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	5,195,252	5,421,632	5,344,160	5,152,507
Contribution as a percentage of employer's covered-employee payroll	18.87%	18.39%	17.73%	16.87%

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
 SCHEDULE OF THE BOCES PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY
 LAST 10 FISCAL YEARS**

	2017
BOCES proportion (percentage) of the collective net pension liability	0.0650700001%
BOCES proportionate share of the collective pension liability	845,650
Employer's covered-employee payroll	5,282,687
BOCES proportionate share of the net pension liability as a percentage of it's employer's covered-employee payroll	624.69%
Plan fiduciary net pension as a percentage of the total pension liability	17.53%

The amounts presented for each fiscal year were determined as of December 31.

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS - OPEB
LAST 10 FISCAL YEARS**

	<u>2018</u>
As of June 30,	
Statutorily required contributions	\$ 53,237
Contributions in relation to the statutorily required contributions	<u>53,237</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	5,195,252
Contribution as a percentage of employer's covered-employee payroll	1.02%

SUPPLEMENTARY INFORMATION

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Other income	\$ -	\$ -	\$ -	\$ -
Rent revenue	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Supporting services	35,000	35,000	51,549	(16,549)
Facilities acquisition and construction	-	-	-	-
Contingency	<u>65,470</u>	<u>65,470</u>	<u>-</u>	<u>65,470</u>
Total expenditures	<u>100,470</u>	<u>100,470</u>	<u>51,549</u>	<u>48,921</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(100,470)</u>	<u>(100,470)</u>	<u>(51,549)</u>	<u>48,921</u>
Other financing sources (uses)				
Transfers in	10,000	10,000	10,000	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net change in fund balance	<u>(90,470)</u>	<u>(90,470)</u>	<u>(41,549)</u>	<u>48,921</u>
Fund balances at beginning of year	90,470	90,470	88,372	(2,098)
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,823</u>	<u>\$ 46,823</u>

See the accompanying independent auditors' report

COLORADO DEPARTMENT OF EDUCATION
AUDITOR'S INTEGRITY REPORT



Colorado Department of Education
Auditors Integrity Report
 District: 9045 - PIKES PEAK BOCES
 Fiscal Year 2017-18
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental				
10 General Fund	2,203,752	8,821,143	8,536,909	2,487,986
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub-Total	2,203,752	8,821,143	8,536,909	2,487,986
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	9,963	75	0	10,037
06 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt. Designated-Purpose Grants Fund	0	2,453,804	2,453,804	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
75 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	38,372	10,000	51,549	46,823
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Total	2,302,085	11,285,022	11,042,263	2,544,816
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Total	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34 Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0

FINAL

SINGLE AUDIT
UNIFORM GUIDANCE REPORTS

**PIKES PEAK BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/ Pass Through Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education			
Passed through Colorado Department of Education:			
Clusters:			
IDEA - Part B	84.027	4027	\$ 884,195
Preschool Handicap	84.173	4173	32,600
Subtotal of Clustered Programs			<u>916,795</u>
Total Federal Awards			<u>\$ 916,795</u>

Basis of Presentation: The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the BOCES under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the BOCES, it is not intended to and does not present the financial position or changes in net position of the BOCES. The BOCES has elected not to use the 10 percent de minimis indirect cost rate as allowed by the Uniform Guidance. This schedule is presented on the modified accrual basis of accounting.

No sub recipient amounts were funded.

Summary of Significant Accounting Policies: Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board Members
Pikes Peak Board of Cooperative Educational Services
Colorado Springs, Colorado

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Pikes Peak Board of Cooperative Educational Services (BOCES) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the BOCES basic financial statements, and have issued my report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the BOCES internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOCES internal control. Accordingly, I do not express an opinion on the effectiveness of the BOCES internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BOCES financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Colorado Springs, Colorado
November 2, 2018



**Independent Auditor's Report On Compliance For Each Major
Program And Report on Internal Control over Compliance Required
by the Uniform Guidance**

Board Members
Pikes Peak Board of Cooperative Educational Services
Colorado Springs, Colorado

Report on Compliance for Each Major Federal Program

I have audited the Pikes Peak Board of Cooperative Educational Services (BOCES) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the BOCES major federal programs for the year ended June 30, 2018. The BOCES major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Pikes Peak Board of Cooperative Educational Services (BOCES) major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the BOCES compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the BOCES compliance.

Opinion on Each Major Federal Program

In my opinion, the Pikes Peak Board of Cooperative Educational Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Pikes Peak Board of Cooperative Educational Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the BOCES internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the BOCES internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Colorado Springs, Colorado
November 2, 2018



Pikes Peak Board of Cooperative Educational Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

1. The independent auditors’ report on the financial statements expressed an unmodified opinion.
2. Internal controls over financial reporting:
 - Material weaknesses identified: NO
 - Significant deficiencies identified that are not considered to be material weaknesses: NO
3. Noncompliance considered material to the financial statements: NO

Federal Awards

1. Internal control over major programs:
 - No material weaknesses identified
 - Significant deficiencies identified that are not considered to be material weaknesses. None reported.
2. The independent auditors’ report on compliance for the major federal programs expresses an unmodified opinion on all major federal programs.
3. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
4. The BOCES major programs were:

<u>Name of Federal Program:</u>	<u>CFDA Number</u>
CLUSTERS:	
IDEA - Part B	84.027
Preschool Handicap	84.173

5. A threshold of \$750,000 was used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance.
6. The BOCES was determined to be a low-risk auditee.

Section II – Findings Related to Financial Statements

None

Section III – Federal Award Findings and Questioned Costs

There were no findings required to be reported under generally accepted government auditing standards.

Section IV – Prior Year Findings

Significant Deficiencies

2017-001 Bank Reconciliations

Condition: Bank account reconciliations of the pooled cash account are not reconciled on a monthly basis.

Criteria: Internal controls should be in place to ensure bank account reconciliations are performed on a monthly basis. Bank reconciliations should be performed to ensure the financial records are accurate and complete.

Cause: The BOCES converted their existing accounting software to a new software vendor. The program purchased did not include the “bank account reconciliation” module. During the fiscal year, the bank account reconciliation module began to function properly and the bank account reconciliation was not an issue during the last seven months of the year.

Effect: Because of the failure to perform bank account reconciliations, the financial statements produced throughout the year may have been incorrect.

Recommendation: Procedures should be implemented requiring the completion of bank account reconciliations of the pooled cash account on a monthly basis with a certain date of completion.

Views of Responsible Officials and Planned Corrective Actions: The BOCES agrees with the finding and the recommended procedures will be implemented.

Identification of a repeat finding: The BOCES had this finding in the previous audit, however, the finding was rectified in the current year.