FREE HORIZON MONTESSORI CHARTER SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2018

TABLE OF CONTENTS

Board of Directors
Free Horizon Montessori Charter School
Golden, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements governmental activities and each major fund of Free Horizon Montessori Charter School, component unit of Jefferson County School District No. R-1, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Free Horizon Montessori Charter School, 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.

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Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 13, the School terminated its charter agreement with the Jefferson County School District R-1 effective September 13, 2018 and, going forward, will operate as an option school of the District with innovation status. The net assets as of this date will be returned to the District. The financial statements do not include any adjustments that might result from the termination of the charter agreement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 40-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

November 15, 2018

FREE HORIZON MONTESSORI CHARTER SCHOOL
Management's Discussion and Analysis

As management of Free Horizon Montessori, we offer readers of these financial statements this narrative overview and analysis of the financial activities of Free Horizon Montessori charter school ("the School") for the fiscal year ended June 30, 2018.

Financial Highlights

At the close of its 16th year of operation, the revenues of the School exceeded its expenses, resulting in a net gain of $37,016. The School's assets of $7,317,817 also exceeded its short-term and debt service liabilities totaling $6,227,625. However, due to the implementation of Governmental Accounting Standards Board (GASB) Statement Numbers 68[1] and 75[1], effective in 2015, governmental entities participating in cost-sharing multiple-employer defined benefit pension plans and other postemployment benefits (OPEB), including schools like Free Horizon Montessori, which are part of or administered by the Public Employees' Retirement Association (PERA), must report a proportionate share of the total net pension liability (unfunded liability) of each. This resulted in the School's 2018 ending net position of $(10,249,729) due to the long-term Net Pension Liability and Net OPEB Liability of $14,443,297 reflected in its statements. Overall, the 2018 fiscal activities continue the trend of positive financial position, which has allowed the school to continue to increase its unrestricted operational reserves and address strategic priorities.

At the close of fiscal year 2018, the School's ending funds balance was $1,642,723, an increase of $37,016 from close of fiscal year 2017. This year's result continues the overall positive trend also observed at last four prior years' end position.

Overview of Financial Statements

This report follows the guidelines set forth in the GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

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

The School's fiscal year follows that of its parent school district (Jefferson County School District R-1), and runs July 1 to June 30. The School Board of Directors in collaboration with School administration approves an annual appropriation budget each April for the coming school/fiscal year.

Information within this audit report and associated discussions is presented on the School's General Fund, which is the major operational account for the School. Beginning in fiscal year 2012, the School no longer included its separate Foundation financials in its reporting. All comparisons made here between current and prior years take this difference into account.

Free Horizon Montessori adopts an annual appropriated budget for its General Fund. A budget to actual comparison is included on page 40, showing end of year variances and net impact.

[1] http://www.gasb.org/resources/ccurl/988/315/GASBS%2068.pdf and
https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176166144750

Included within the reporting of School assets are the Free Horizon Montessori Building Corporation (FHMBC) accounts. The FHMBC was established in 2010 as a separate, passive corporation for the sole purpose of supporting the School's financing needs for lease/purchase the school building and grounds through commercial bonding. The holdings of the FHMBC ($738,816) are blended in as restricted assets within the School's Statement of Net Position (page 1), Government Fund Balance Sheet (page 3) and further discussed within the Notes (pages 6, 11 and 13).

Government-wide Financial Statements

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

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

The Statement of Activities indicates how the School's fiscal year activities affected its net position during the most recent fiscal year. The Statement of Activities differentiates program revenues arising from services and grants from revenues generated through governmental sources (e.g., per pupil revenue and mill levy taxes passed through from the District, and funds received from the County and State). All changes in net position are recorded as soon as the underlying event is recognized, regardless of the timing of related cash flows (i.e., accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will not result in actual cash transactions until future fiscal periods (e.g. accounts receivable, uncollected grant awards, and earned but unpaid salary and benefits).

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental funds statements account for essentially the same functions (reported therein as governmental activities) as do the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable (unassigned) resources. They also indicate balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing capacity.

The government fund financial statements can be found on pages 3 through 5 of this report.

Notes to the Financial Statements

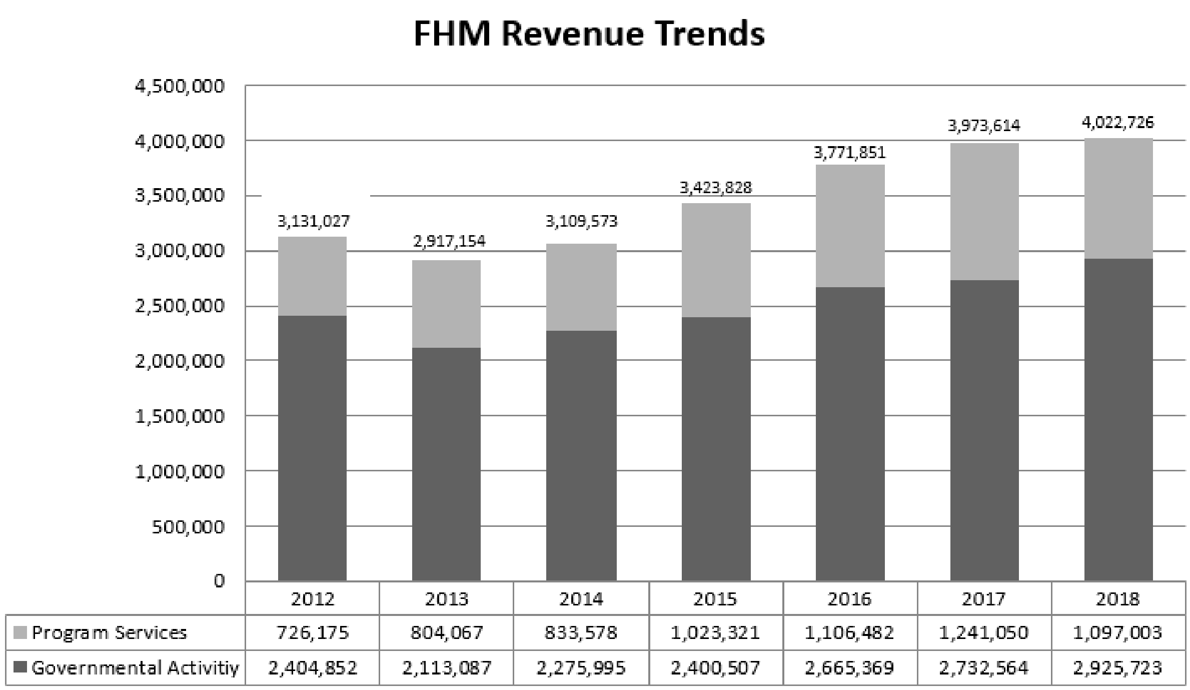
The notes provide additional information and context essential to a full understanding of financial statements' data. This information is provided on pages 6-39.

Government-wide Financial Analysis

At the close of fiscal year 2018, the School's assets of $7,317,817 exceeded its short-term and debt service liabilities of $6,227,625. However, due to the requirements of GASB Statements 68 and 75, schools are now required to report their proportion of the overall PERA Net Pension Liability and other postemployment benefits (OPEB) as a long-term liability. Net Pension Liability and Net OPEB Liability are a proportionate share of the deferred benefits committed by employers through PERA. In 2018, the School's Net Pension Liability and Net OPEB Liability shares are calculated at $14,443,297. The significant increase in the long-term net liability from prior years is further explained on pages 16-37 of this report. This long-term liability increases FHM's total liabilities to $21,000,746, thus reducing its total net position to $(10,249,729) (see Statement of Net Position, page 1).

The largest portion of the School's assets totaling $5,265,554 (72 percent) is represented by its capital assets (e.g., school building and equipment). The balance of assets is comprised of cash and investments totaling $2,049,617 (28 percent) and accounts receivable totaling $2,646 (0.04 percent). There were no major construction projects during fiscal year 2018, and therefore, no gain in capital assets, but rather a decrease as accumulated depreciation began on improvements from the prior three years. This resulted in a decrease of $394,731 from fiscal year 2017. Approximately 73 percent ($2,925,723) of the School's cash income was realized through governmental activities, including per pupil revenue, mill levy overrides, State provided capital construction funds, and other governmental sources. The other source of cash income, 27 percent ($1,097,003), was generated through the School's program service charges/fees and grants.

Continuing the trend seen with the prior years, 2018 total revenue continues to increase and is slightly more distributed across sources; in 2017, governmental activity revenues accounted for 69 percent ($2,732,564) of total and program services 31 percent ($1,241,050). In 2016, governmental activity revenues accounted for 71 percent ($2,665,369) of total and program services accounted for 29 percent ($1,106,482). In 2015, governmental activity revenues accounted for 70 percent ($2,400,507) of total and program services accounted for 30 percent ($1,023,321). In 2014, governmental activity revenues accounted for 73 percent ($2,275,995) of total and program services accounted for 27 percent ($833,578). In 2013, governmental activity revenues accounted for 72 percent ($2,113,087) of total and program services accounted for 28 percent ($804,067) of total. In 2012, governmental activity revenues accounted for 77 percent ($2,404,852) of total and program revenues accounted for 23 percent ($726,175) of total. This information is also portrayed in the chart below:



Free Horizon Montessori's Net Position

	Governmental Activities as of 30 June			
	2018		2017	
ASSETS				
Cash and Investments	$	1,310,801	$	1,335,103
Restricted Cash and Investments	$	738,816	$	631,270
Accounts Receivable	$	2,646	$	2,581
Capital Assets, Not Depreciated	$	820,874	$	820,874
Capital Assets, Net of Accumulated Depreciation	$	4,444,680	$	4,839,411
TOTAL ASSETS	$	7,317,817	$	7,629,239
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pensions	$	4,155,789	$	5,564,119
Related to OPEB	$	11,990	$	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	4,167,779	$	5,564,119
LIABILITIES				
Accounts Payable	$	20,725	$	18,189
Accrued Salaries	$	204,727	$	219,862
Accrued Interest	$	13,638	$	13,846
Unearned Revenue	$	184,088	$	125,196
Noncurrent Liabilities				
Due in One Year	$	130,000	$	125,000
Due in More than One Year	$	5,674,447	$	5,808,058
Net Pension Liability	$	14,443,297	$	12,242,207
Net OPEB Liability	$	329,824	$	-
TOTAL LIABILITIES	$	21,000,746	$	18,552,358
DEFERRED INFLOWS OF RESOURCES				
Original Issue Premium	$	723,759	$	48,536
Related to Pensions	$	10,820	$	-
TOTAL DEFERRED INFLOWS OF RESOURCES	$	734,579	$	48,536
NET POSITION				
Net Investment in Capital Assets	$	(523,836)	$	461,161
Restricted for Emergencies	$	107,138	$	102,664
Restricted for Working Capital	$	738,816	$	617,424
Unrestricted	$	(10,571,847)	$	(6,588,785)
TOTAL NET POSITION	$	(10,249,729)	$	(5,407,536)

Free Horizon Montessori's Change in Net Position

	Change in Net Position as of 30 June	
	2018	**2017**
Program Revenues		
Charges for Service	$ 927,995	$ 971,652
Operating Grants & Contributions	$ 169,008	$ 269,398
Total Program Revenue	$ 1,097,003	$ 1,241,050
General Revenues		
General Per Pupil Revenue	$ 2,417,383	$ 2,243,611
Mill Levy Override	$ 448,900	$ 428,944
Capital Construction Funds		
Other	$ 59,440	$ 60,009
Special Item		
Capital Transfer from District	$ -	$ -
Total General Revenue	$ 2,925,723	$ 2,732,564
Total Revenues	$ 4,022,726	$ 3,973,614
Expenses		
Governmental Activities		
Instruction	$ 5,209,342	$ 3,435,936
Supporting Services	$ 2,881,888	$ 2,261,678
Interest on Long-Term Debt	$ 328,487	$ 333,525
Total Governmental Activities	$ 8,419,717	$ 6,031,139
Change in Net Position	$ (4,396,991)	$ (2,057,525)
Net Position		
Beginning, Restated	$ (5,852,738)	$ (3,350,011)
Ending	$ (10,249,729)	$ (5,407,536)

Government Fund Financial Analysis

As noted earlier, the School uses fund accounting to ensure appropriate segregation of activities and demonstrate compliance with finance-related legal requirements. This includes maintaining sufficient reserve requirements for Bond financing covenants and TABOR reserves (see Notes, pages 13 and 38).

General Fund Budgetary Highlights

As of the end of fiscal year 2018, the School's governmental funds reported an ending fund balance of $1,642,723, an increase of $37,016 over the prior year.

Expected revenues were $49,112 (1.2%) higher than budgeted, due to higher actual enrollment of 323.32 FTE compared to the budgeted 317 FTE which brought in higher state PPR and local MLO. Tuition revenues were slightly lower than budgeted by $11,965 due to a higher than normal rate of non-payment by families. Despite higher materials and supplies expenditures, overall expenses were lower ($39,090) than budgeted by due primarily to slightly lower salary and benefit expenditures and lower use of purchased services. See page 40 of the report for additional detail.

Capital Asset and Debt Administration

At close of fiscal year 2018, the School reported $5,265,554 in capital assets. This includes $259,689 in total accumulated depreciation. See page 14 of the report for additional detail.

Long-Term Lease Agreement

The School entered into a lease/purchase agreement with the FHMBC in 2010 for acquisition of the school facility. The agreement is renewed annually under its original terms, and requires the School to make monthly lease payments against the debt service. For fiscal year 2018, these monthly lease payments averaged $38,109 and in aggregate make up the $457,306 in total annual Debt Service expenses for the year.

The associated Long Term Debt schedule is included on page 15 of the report.

In accordance with Bond covenants related with the lease/purchase agreement, the School agreed to maintain a repair and replacement reserve account to address facilities and grounds-related expenses above what its annual operating budget covers. The School historically paid $25,000 into this fund each year (approximately $2,083 each month) to reach a balance of $125,000. Once this balance was reached, it is maintained at this level. During fiscal year 2018, the School transferred in $5,659.41 to replenish the reserve by the amount utilized during fiscal year 2018 for capital needs. At the end of fiscal year 2018, the Repair & Replacement Fund balance was $125,782.

To comply with additional Bond covenants, the School maintains an operating capital reserves fund balance of not less than 8 percent of prior year's total operating expenses at the end of each fiscal year. For fiscal year 2018, this amount was $272,271.

Economic Factors and Next Year's Budget

Based on advice from the Colorado Department of Education, the School projects that Per Pupil Revenue (PPR) amounts will increase approximately 4.4 percent from $7,473 per FTE to $7,819. This projected increase is slightly more than the inflationary factors applied to the School's expenses, thus the net impact of PPR increase would be a slight benefit for the coming fiscal year. However, the Jefferson County Board of Education's (BoE) budgeting decision to continue their commitment to equitable distribution of the voter-approved Mill Levy Override (MLO) revenues to charter schools will also help sustain revenues. Estimated fiscal year 2019 MLO revenues are $1,407 per FTE, in line with the amount budgeted in fiscal year 2018.

Enrollment in the School's support programs (preschool, before/after care, summer camp, etc.) continue to grow, with modest, but constant revenue increases each year. Program growth is projected to continue into next fiscal year. Modest overall school growth is anticipated in fiscal year 2019 with the shift of the School's 6th grade into its middle school program occurs. Preparation for this growth began in 2018 when the School entered into a Memorandum of Understanding with the Board of Education of Jefferson County School District (R-1) to transition to a Jeffco Option School with Innovation Status. On June 14, 2018, the Colorado Board of Education unanimously approved the School's Innovation Plan. In conjunction with the memorandum of understanding, the School also entered into a purchase and sale agreement of its existing educational facility. On September 9, 2018, the School conveyed title of its facility to the District and the District assumed the School's related outstanding bond debt in the amount of $6,168,910.

As part of this transition, the School will adjust its budgeting and accounting system to be more consistent with other Jefferson County School District Option Schools. The School will continue to focus on its strategic plan for retention and staff development goals into fiscal year 2019, as well as transitioning to a new campus and to an Option School with Innovation Status.

Requests for Information

This report is designed to provide a general overview of Free Horizon Montessori's finances for those with an interest in the School's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Free Horizon Montessori, Attn: Miera Nagy, Director of Finance & Advancement, 15920 W. 10th Avenue, Golden, CO 80401 or via email at mnagy@jeffcoschools.us.

BASIC FINANCIAL STATEMENTS

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION
As of June 30, 2018

	Governmental Activities 2018	Governmental Activities 2017
ASSETS		
Cash and Investments	$ 1,310,801	$ 1,232,439
Restricted Cash and Investments	738,816	733,934
Accounts Receivable	2,646	2,581
Capital Assets, Not Depreciated	820,874	820,874
Capital Assets, Net of Accumulated Depreciation	4,444,680	4,839,411
TOTAL ASSETS	7,317,817	7,629,239
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	4,155,789	5,564,119
Related to OPEB	11,990	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,167,779	5,564,119
LIABILITIES		
Accounts Payable	20,725	18,189
Accrued Salaries	204,727	219,862
Accrued Interest	13,638	13,846
Unearned Revenues	184,088	125,196
Noncurrent Liabilities		
Due in One Year	130,000	125,000
Due in More than One Year	5,674,447	5,808,058
Net Pension Liability	14,443,297	12,242,207
Net OPEB Liability	329,824	-
TOTAL LIABILITIES	21,000,746	18,552,358
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	723,759	48,536
Related to OEPB	10,820	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	734,579	48,536
NET POSITION		
Net Investment in Capital Assets	(523,836)	461,161
Restricted for Emergencies	107,138	102,664
Restricted for Debt Service	738,816	617,424
Unrestricted	(10,571,847)	(6,588,785)
TOTAL NET POSITION	$ (10,249,729)	$ (5,407,536)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		PROGRAM REVENUES		NET (EXPENSE) REVENUE CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES	
FUNCTIONS/PROGRAMS	EXPENSES	Charges for Services	Operating Grants and Contributions	2018	2017
PRIMARY GOVERNMENT					
Governmental Activities					
Instruction	$ 5,209,342	$ 927,995	$ 169,008	$ (4,112,339)	$ (2,194,886)
Supporting Services	2,881,888	-	-	(2,881,888)	(2,261,678)
Interest on Long-Term Debt	328,487	-	-	(328,487)	(333,525)
Total Governmental Activities	$ 8,419,717	$ 927,995	$ 169,008	(7,322,714)	(4,790,089)
GENERAL REVENUES					
PPR Revenue				2,417,383	2,243,611
Mill Levy Override				448,900	428,944
Other				59,440	60,009
TOTAL GENERAL REVENUES				2,925,723	2,732,564
CHANGE IN NET POSITION				(4,396,991)	(2,057,525)
NET POSITION, Beginning, Restated				(5,852,738)	(3,350,011)
NET POSITION, Ending				$ (10,249,729)	$ (5,407,536)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	TOTAL GOVERNMENTAL FUNDS 2018	TOTAL GOVERNMENTAL FUNDS 2017
ASSETS		
Cash and Investments	$ 1,310,801	$ 1,232,439
Restricted Cash and Investments	738,816	733,934
Accounts Receivable	2,646	2,581
TOTAL ASSETS	$ 2,052,263	$ 1,968,954
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$ 20,725	$ 18,189
Accrued Salaries and Benefits	204,727	219,862
Unearned Revenues	184,088	125,196
TOTAL LIABILITIES	409,540	363,247
FUND BALANCES		
Restricted for Emergencies	107,138	102,664
Restricted for Debt Service	738,816	617,424
Unassigned	796,769	885,619
TOTAL FUND BALANCES	1,642,723	1,605,707
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	5,265,554	5,660,285
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is the Bonds outstanding of ($5,725,000), bond premium net of amortization ($79,447), and accrued interest on bonds of ($13,638).	(5,818,085)	(5,946,904)
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes the net pension liability of ($14,443,297), net OPEB liability ($329,824), deferred outflows related to pensions of $4,155,789, deferred outflows related to OPEB of $11,990, deferred inflows related to pensions of ($723,759) and deferred inflows related to OPEB of ($10,820).	(11,339,921)	(6,726,624)
Net position of governmental activities	$ (10,249,729)	$ (5,407,536)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	TOTAL GOVERNMENTAL FUNDS	
	2018	2017
REVENUES		
Local Sources	$ 3,863,432	$ 3,828,206
State and Federal Sources	159,294	145,408
TOTAL REVENUES	4,022,726	3,973,614
EXPENDITURES		
Current		
Instruction	2,065,693	1,954,081
Supporting Services	1,462,711	1,449,307
Debt Service		
Principal	125,000	120,000
Interest	332,306	337,106
TOTAL EXPENDITURES	3,985,710	3,860,494
NET CHANGE IN FUND BALANCES	37,016	113,120
FUND BALANCES, Beginning	1,605,707	1,492,587
FUND BALANCES, Ending	$ 1,642,723	$ 1,605,707

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Changes in Fund Balances - Total Governmental Funds	$ 37,016
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. This is the amount of depreciation expense for the year	(259,689)
Some expenses reported in the statement of activities do not require current financial resources and are not reported in the funds. These are the principal payments on bonds, $125,000, amortization of bond premium $3,611, and the change in accrued interest payable $208.	128,819
Deferred charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds, those amounts are capitalized and amortized.	(4,303,137)
Change in Net Position of Governmental Activities	$ (4,396,991)

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The Free Horizon Montessori Charter School (the "School") was formed in 2002 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School is utilizing a Montessori curriculum.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

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

The School includes the Free Horizon Montessori Building Corporation (the "Building Corporation") within its reporting entity. The Building Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing of the School's facilities. The Building Corporation is blended into the School's financial statements as part of the General Fund. Separate financial statements are not available for this entity.

The School is a component unit of Jefferson County School District No. R-1.

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 activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (Continued)

Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Internally dedicated resources are reported as general revenues rather than as program revenues.

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

The School reports the following major governmental funds:

General Fund – This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements, 15 years.

Unearned Revenues – Unearned revenues consist of tuition and fees that have been received during the year that are prepayments for the following school year.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

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

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

Net Position – The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets includes the School's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The School typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The School did not report amounts as nonspendable at June 30, 2018.

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The School has also classified Working Capital as restricted as their use is restricted by Bond Covenants.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2018.

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss and bills the School for its portion of coverage. Settlements have not exceeded insurance coverage in the last three years.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: ***STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

Budgets and Budgetary Accounting

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

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

NOTE 3: ***CASH AND INVESTMENTS***

Cash and Investments at June 30, 2018, consisted of the following:

Pooled Cash with the District	$ 1,417,939
Investments	631,678
Total	**$ 2,049,617**

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

Cash and Investments	$ 1,310,801
Restricted Cash and Investments	738,816
Total	**$ 2,049,617**

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations.

At June 30, 2018, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Deposits (Continued)

The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits as most of the School's funds are held by the District.

The School does not have any deposits as of June 30, 2018.

Pooled Cash with District

Cash deposits are pooled with the District cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2018, the School's balance in equity in both restricted and unrestricted pooled cash of the District totaled $1,417,939.

Investments

Interest Rate Risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the School is required to follow the investment policy of the District.

Credit Risk

Colorado statues specify in which instruments units of local government may invest, which include:

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

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Investments (Continued)

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District invested $631,678 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.

The School has no policy for managing credit risk or interest rate risk; however they are required to follow the policies of the District as all funds are maintained by the District.

Restricted Cash and Investments

Cash and investments of $631,678 are restricted in the General Fund for debt servicing and bond reserves and $107,138 for declared emergencies under the TABOR amendment.

NOTE 4: ***CAPITAL ASSETS***

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital Assets, Not Depreciated				
Land	$ 820,874	$ -	$ -	$ 820,874
Capital Assets, Being Depreciated				
Leasehold Improvements	1,069,242	-	-	1,069,242
Buildings	4,865,731	-	-	4,865,731
Equipment	65,698	-	-	65,698
Total Capital Assets, Being Depreciated	6,000,671	-	-	6,300,671
Accumulated Depreciation				
Leasehold Improvements	132,044	71,283	-	203,327
Buildings	1,113,051	185,508	-	1,298,559
Equipment	51,207	2,898	-	54,105
Total Accumulated Depreciation	1,296,302	259,689	-	1,555,991
Net Capital Assets, Depreciated	4,704,369	(259,689)	-	4,444,680
Net Capital Assets	**$ 5,525,243**	**$ (259,689)**	**$ -**	**$ 5,265,554**

The beginning balance of the capital assets was reduced to $5,525,243. See Note 11 for more information.

Depreciation has been charged to the Supporting Services program of the School.

NOTE 5: ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were $204,727. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6: *LONG-TERM DEBT*

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

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due In One Year
Building Lease	**$ 5,850,000**	**$ -**	**$ 125,000**	**$ 5,725,000**	**$ 130,000**

Building Lease

July 6, 2010, the Colorado Educational and Cultural Facilities Authority issued $6,550,000 in Charter School Revenue Bonds, Series 2010 for the Free Horizon Montessori School Project. Proceeds of the bond were loaned to the School under a lease agreement to exercise the purchase option for the School's building. The School has created the Free Horizon Montessori Charter School Building Corporation to purchase the building and to service the debt. The School is required to make equal lease payments to the Building Corporation for use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 2% to 6%. The bonds mature in December 2040.

Future debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 130,000	$ 327,306	$ 457,306
2020	135,000	322,106	457,106
2021	140,000	316,706	456,706
2022	150,000	309,706	459,706
2023	155,000	302,206	457,206
2024 – 2028	915,000	1,385,030	2,300,030
2029 – 2033	1,205,000	1,114,170	2,319,170
2034 – 2038	1,625,000	699,782	2,324,782
2039 – 2040	1,270,000	131,688	1,401,688
Total	**$ 5,725,000**	**$ 4,908,700**	**$ 10,633,700**

NOTE 7: ***DEFINED BENEFIT PENSION PLAN***

Summary of Significant Accounting Policies

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

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

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

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.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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

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

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

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

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were $399,335 for the year ended June 30, 2018.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

At June 30, 2018, the School reported a liability of $14,443,297 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the School's proportion was 0.0408%, which was an increase of 0.00180% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized pension expense of $4,683,978. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$265,551	N/A
Changes of assumptions or other inputs	$3,687,910	$23,403
Net difference between projected and actual earnings on pension plan investments	N/A	$567,202
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$6,712	$133,154
Contributions subsequent to the measurement date	$195,616	N/A
Total	**$4,155,789**	**$723,759**

$195,616 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	$2,234,435
2020	$1,252,515
2021	($21,626)
2022	($228,910)

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

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

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

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.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

- **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:

NOTE 7: *DEFINED BENEFIT PENSION PLAN* (Continued)

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

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

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

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

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

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

NOTE 7: _DEFINED BENEFIT PENSION PLAN_ (Continued)

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

- 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.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	$18,227,670	$14,443,297	$11,335,513

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.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018

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

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.

- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).

- Directs the state to allocate $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.

- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018 (Continued)

At June 30, 2018, the School reported a liability of $14,443,297for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the School's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	$ 6,519,394

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately $6,736,061 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN***

Summary of Significant Accounting Policies

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

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

General Information about the OPEB Plan

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

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.

NOTE 8: _DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN_ (Continued)

General Information about the OPEB Plan (Continued)

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.

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

General Information about the OPEB Plan (Continued)

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were $20,169 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of $329,824 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The School's proportion of the net OPEB liability was based on School's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the School's proportion was 0.40800%, which was an increase of 0.00180% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of $38,663. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$1,560	N/A
Net difference between projected and actual earnings on OPEB plan investments	N/A	$5,518
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	$5,302
Contributions subsequent to the measurement date	$10,430	N/A
Total	**$11,990**	**$10,820**

$10,430 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	($1,943)
2020	($1,943)
2021	($1,943)
2022	($1,948)
2023	($565)
Thereafter	($918)

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

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

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

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

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

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

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

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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.

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

- 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.

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** ((Continued)

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

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

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

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

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

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	$320,456	$329,824	$340,442

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.

NOTE 8: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$370,487	$329,824	$294,558

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 9: ***COMMITMENTS AND CONTINGENCIES***

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by 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 School may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2017, the reserve of $107,138 was recorded as a restriction fund balance and a restriction of cash and investments in the General Fund.

NOTE 10: ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $310,160 as the School implemented Governmental Accounting Standards Board (GASB) Statement 75, and by $135,402 to remove capital assets that were paid for by the Foundation.

NOTE 11: ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position in the amount of $10,249,729 due to the School including its Net Pension Liability and Net OPEB liability per the requirements of GASB Statement Nos. 68 and 75

NOTE 12: ***SUBSEQUENT EVENTS***

Memorandum of Understanding

On May 13, 2018, the School and the Board of Education of Jefferson County School District R-1 (the "District"). Entered into a memorandum of understanding to convert the School to an option school of the District with innovation status. As part of the agreement, the School will surrender its charter agreement and convert to a District option school with innovation status beginning in the 2018-2019 school year.

Purchase and Sale Agreement

In conjunction with the memorandum of understanding, the School also entered into a purchase and sale agreement of its existing educational facility. On September 9, 2018, the School conveyed title of its facility to the District and the District assumed the School's related outstanding bond debt in the amount of $6,168,910.

School Governance Agreement

On September 13, 2018, the School entered into a School Governance Agreement with the District. Under the terms of the agreement, the School's charter and current charter between the District and the School is terminated and the going forward, the School will operate as an option school of the District with innovation status. The initial term of the agreement will continue through June 30, 2019 after which the agreement will automatically renew for successive one-year periods unless terminated by either party.

REQUIRED SUPPLEMENTARY INFORMATION

FREE HORIZON MONTESSORI CHARTER SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	2018 ORIGINAL AND FINAL BUDGET	2018 ACTUAL	2018 VARIANCE Positive (Negative)	2017 ACTUAL
REVENUES				
Local Sources				
Per Pupil Revenue	$ 2,330,901	$ 2,417,383	$ 86,482	$ 2,243,611
Mill Levy Override	439,929	448,900	8,971	428,944
Tuition	812,700	800,735	(11,965)	933,355
Charges for Services	131,000	127,260	(3,740)	38,297
Donations	107,700	9,714	(97,986)	123,990
Other	36,449	54,748	18,299	59,756
Interest	80	4,692	4,612	253
State Sources				
Grants and Donations	166,041	159,294	(6,747)	145,408
TOTAL REVENUES	4,024,800	4,022,726	(2,074)	3,973,614
EXPENDITURES				
Salaries	2,193,000	2,190,965	2,035	2,155,382
Employee Benefits	595,407	578,151	17,256	549,491
Purchased Services	640,697	556,860	83,837	579,683
Supplies and Materials	138,390	202,428	(64,038)	118,733
Other	-	-	-	99
Debt Service				
Principal	125,000	125,000	-	120,000
Interest	332,306	332,306	-	337,106
TOTAL EXPENDITURES	4,024,800	3,985,710	39,090	3,860,494
NET CHANGE IN FUND BALANCE	-	37,016	37,016	113,120
FUND BALANCE, Beginning	1,461,216	1,605,707	144,491	1,492,587
FUND BALANCE, Ending	$ 1,461,216	$ 1,642,723	$ 181,507	$ 1,605,707

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DIVISION TRUST FUND

Years Ended December 31,

	2013	2014	2015	2016	2017
School's proportionate share of the Net Pension Liability	0.032%	0.034%	0.039%	0.039%	0.041%
School's Net Pension Liability	$ 4,096,322	$ 4,562,049	$ 5,932,519	$ 12,242,207	$ 14,443,297
School's covered-employee payroll	$ 1,197,555	$ 1,308,249	$ 1,602,610	$ 1,891,070	$ 1,937,913
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	342.1%	348.7%	370.2%	647.4%	745.3%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.10%	43.96%

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016	2017	2018
Statutorily required contributions	$ 224,444	$ 269,301	$ 323,812	$ 396,868	$ 399,335
Contributions in relation to the Statutorily required contributions	224,444	269,301	323,812	396,868	399,335
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 1,194,257	$ 1,410,193	$ 1,812,732	$ 1,900,125	$ 1,977,317
Contributions as a percentage of covered-employee payroll	18.79%	19.10%	17.86%	20.89%	20.20%

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
HEALTH CARE TRUST FUND

Years Ended December 31,

	2016	2017
School's proportionate share of the Net OPEB Liability	0.039%	0.041%
School's proportionate share of the Net OPEB Liability	$ 320,481	$ 329,824
School's covered-employee payroll	$ 1,891,070	$ 1,937,913
School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	16.9%	17.0%
Plan fiduciary net position as a percentage of the total OPEB liability	16.72%	17.53%

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	$ 19,381	$ 20,169
Contributions in relation to the Statutorily required contributions	19,381	20,169
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 1,900,125	$ 1,977,317
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

See the accompanying independent auditors' report.