

**Community Prep School**  
*(A Component Unit of Colorado Springs School District 11)*  
**Financial Statements**

June 30, 2019

**Community Prep School**  
*(A Component Unit of Colorado Springs School District 11)*  
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June 30, 2019

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**HINKLE &  
COMPANY**  
*Strategic* PC  
*Business Advisors*

## Independent Auditors' Report

Governing Board  
Community Prep School  
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of the Community Prep School, component unit of Colorado Springs School District 11, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Community Prep School, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Community Prep School as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Update to Financial Statement*

The Auditor's opinion, originally dated August 15, 2019, has been updated to September 11, 2019 to reflect a change in the financial statement requested by the School, as described in Note 7.

#### *Required Supplementary Information*

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

*Hick & Company, PC*

Greenwood Village, Colorado  
September 11, 2019



**COMMUNITY PREP SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR FISCAL YEAR ENDED JUNE 30, 2019**

As management of Community Prep School (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

**FINANCIAL HIGHLIGHTS**

- Liabilities and deferred inflows of the School exceeded its assets and deferred outflows by \$3,862,933 during the fiscal year resulting in a negative net position balance.
- The School's total net position decreased \$628,039.
- The School has no long-term debt.
- As of the close of the current fiscal year, the School's General Fund reported an ending fund balance of \$1,047,814, a decrease of \$535,976 in comparison with the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide Financial Statements**

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

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

The *statement of activities* presents information reporting how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include general government activities of running a school. Currently, the School has no business-type activities.

### **Fund Financial Statements**

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

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

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

### **Notes to the Basic Financial Statements**

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

### **Required Supplementary Information**

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows exceeded total assets and deferred outflows by \$3,862,933 as of June 30, 2019 resulting in a negative net position balance.

### Condensed Statement of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 1,137,323	\$ 1,675,725
Capital assets, net accumulated depreciation	<u>1,547,537</u>	<u>1,401,143</u>
Total assets	<u>2,684,860</u>	<u>3,076,868</u>
Deferred outflows of resources	<u>1,789,168</u>	<u>3,377,708</u>
Long-term liabilities	5,169,781	9,225,278
Other liabilities	<u>89,509</u>	<u>91,935</u>
Total liabilities	<u>5,259,290</u>	<u>9,317,213</u>
Deferred inflows of resources	<u>3,077,671</u>	<u>372,257</u>
Net position:		
Net investment in capital assets	1,547,537	1,401,143
Restricted	224,999	244,030
Unrestricted	<u>(5,635,469)</u>	<u>(4,880,067)</u>
Total net position	<u>\$ (3,862,933)</u>	<u>\$ (3,234,894)</u>

### Condensed Statement of Activities

	<u>2019</u>	<u>2018</u>
Revenues:		
General Revenues	\$ 2,211,963	\$ 3,364,739
Grants and Contributions	126,527	174,599
Charges for Services	<u>6,509</u>	<u>20,139</u>
Total revenues	<u>2,344,999</u>	<u>3,559,477</u>
Expenses:		
Instructional	1,344,159	2,129,583
Supporting Services	<u>1,628,879</u>	<u>2,596,063</u>
Total expenses	<u>2,973,038</u>	<u>4,725,646</u>
Change in net position	<u>(628,039)</u>	<u>(1,166,169)</u>
Net position, beginning	<u>(3,234,894)</u>	<u>(2,068,725)</u>
Net position, ending	<u>\$ (3,862,933)</u>	<u>\$ (3,234,894)</u>

### ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund is the operating fund of the School. The fund balance for the General Fund was \$1,047,814 at the end of the current fiscal year.

## **BUDGETARY HIGHLIGHTS**

The School budgeted for expenditures of \$3,323,652 for the year ended June 30, 2019. Actual expenditures were \$2,905,617. Budgetary highlights include:

- Pupil count was lower than budgeted and lower than the previous year due to administrative changes at the school.
- The School successfully decreased spending to help offset the lower pupil count.
- The School ended the year with a fund balance of \$1,047,814.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Capital assets include all capital outlays related to the School building. The School's investment in capital assets for its governmental activities at the end of the year was \$1,547,537.

- The School purchased building improvements of \$170,430 (\$34,693 was completed during the year and \$135,737 was recorded as construction in progress) and equipment of \$57,966 during the year. Equipment of \$46,993 was disposed of. Other changes are for depreciation expense.

### **Debt Administration**

At the end of current fiscal year, the School had no long-term debt.

## **ECONOMIC FACTORS**

- The state has increased school funding for the 2019-20 fiscal year. Community Prep School has budgeted for the increase in funding for this coming year.
- Community Prep is located in downtown Colorado Springs. It is centrally located and close to public transportation. The School anticipates that these factors will allow for continued growth in the future.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide readers with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gayle Hinrichs, Interim Principal, Community Prep School, 332 E. Willamette Avenue, Colorado Springs, CO 80903.

## **Basic Financial Statements**

**Community Prep School**  
 (A Component Unit of Colorado Springs School District 11)  
 Statement of Net Position  
 June 30, 2019

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 1,105,071
Receivables	32,252
Prepaid Expenses	-
Capital Assets, <i>Not Being Depreciated</i>	420,737
Capital Assets, <i>Net of Accumulated Depreciation</i>	<u>1,126,800</u>
 Total Assets	 <u>2,684,860</u>
<b>Deferred Outflows of Resources</b>	
OPEB, <i>Net of Accumulated Amortization</i>	45,664
Pensions, <i>Net of Accumulated Amortization</i>	<u>1,743,504</u>
 Total Deferred Outflows of Resources	 <u>1,789,168</u>
<b>Liabilities</b>	
Accounts Payable	52,702
Accrued Expenses	36,807
Noncurrent Liabilities	
OPEB Liability	245,917
Net Pension Liability	<u>4,923,864</u>
 Total Liabilities	 <u>5,259,290</u>
<b>Deferred Inflows of Resources</b>	
OPEB, <i>Net of Accumulated Amortization</i>	374
Pensions, <i>Net of Accumulated Amortization</i>	<u>3,077,297</u>
 Total Deferred Inflows of Resources	 <u>3,077,671</u>
<b>Net Position</b>	
Net Investment in Capital Assets	1,547,537
Restricted for:	
Scholarships	67,490
Emergencies	85,969
Contingencies	71,540
Unrestricted	<u>(5,635,469)</u>
 Total Net Position	 <u>\$ (3,862,933)</u>

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Statement of Activities  
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government</b>				
<i>Governmental Activities</i>				
Instruction	\$ 1,344,159	\$ 1,734	\$ 123,049	\$ (1,219,376)
Supporting Services	<u>1,628,879</u>	<u>4,775</u>	<u>3,478</u>	<u>(1,620,626)</u>
Total Governmental Activities	<u>\$ 2,973,038</u>	<u>\$ 6,509</u>	<u>\$ 126,527</u>	<u>\$ (2,840,002)</u>
<b>General Revenues</b>				
Per Pupil Revenue				1,618,668
District Mill Levy				503,540
Capital Construction				61,173
Grants and Contributions not Restricted to Specific Programs				5,797
Investment Income				4,652
Other				<u>18,133</u>
Total General Revenues				<u>2,211,963</u>
Change in Net Position				(628,039)
<b>Net Position, Beginning of year</b>				<u>(3,234,894)</u>
<b>Net Position, End of year</b>				<u>\$ (3,862,933)</u>

**Community Prep School**  
 (A Component Unit of Colorado Springs School District 11)  
 Balance Sheet  
 Governmental Fund  
 June 30, 2019

	General
<b>Assets</b>	
Cash	\$ 1,105,071
Account Receivables	<u>32,252</u>
 Total Assets	 \$ <u><u>1,137,323</u></u>
<b>Liabilities and Fund Balance</b>	
<i>Liabilities</i>	
Accounts Payable	\$ 52,702
Accrued Liabilities	<u>36,807</u>
 Total Liabilities	 <u>89,509</u>
<i>Fund Balance</i>	
Restricted for:	
Scholarships	67,490
Emergencies	85,969
Contingencies	71,540
Unrestricted, Unassigned	<u>822,815</u>
 Total Fund Balance	 <u>1,047,814</u>
 Total Liabilities and Fund Balance	 \$ <u><u>1,137,323</u></u>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
Total Fund Balance of the Governmental Fund	\$ 1,047,814
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	1,547,537
Long-term liabilities and related items are not reported in governmental funds:	
Net pension liability	(4,923,864)
Pension-related deferred outflows of resources	1,743,504
Pension-related deferred inflows of resources	(3,077,297)
Net OPEB liability	(245,917)
OPEB-related deferred outflows of resources	45,664
OPEB-related deferred inflows of resources	<u>(374)</u>
 Total Net Position of Governmental Activities	 \$ <u><u>(3,862,933)</u></u>

**Community Prep School**  
 (A Component Unit of Colorado Springs School District 11)  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Governmental Fund  
 For the Year Ended June 30, 2019

	General
<b>Revenues</b>	
Local Sources	\$ 2,144,372
State Sources	148,021
Federal Sources	77,248
Total Revenues	2,369,641
<b>Expenditures</b>	
Instruction	1,239,156
Supporting Services	1,666,461
Total Expenditures	2,905,617
<b>Net Change in Fund Balance</b>	(535,976)
<b>Fund Balance, Beginning of year</b>	1,583,790
<b>Fund Balance, End of year</b>	\$ 1,047,814

**Community Prep School**  
*(A Component Unit of Colorado Springs School District 11)*  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of the Governmental Fund to the Statement of Activities  
For the Year Ended June 30, 2019**

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

Net Change in Fund Balance of the Governmental Fund	\$ (535,976)
<p>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.</p>	
Depreciation expense	(54,882)
Capital Outlay	228,396
<p>Governmental funds do not record deletions or losses; however, in the statement of activities these assets and accumulated depreciation are removed, and gain or losses are recorded.</p>	
Assets Removed	(46,993)
Accumulated Depreciation	19,873
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes the change in:</p>	
Net Pension Liability	4,095,451
Pension-related deferred outflows of resources	(1,610,427)
Pension-related deferred inflows of resources	(2,708,486)
Net OPEB Liability	(39,954)
OPEB-related deferred outflows of resources	21,887
OPEB-related deferred inflows of resources	<u>3,072</u>
Change in Net Position of Governmental Activities	<u>\$ (628,039)</u>

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Notes to Financial Statements  
June 30, 2019

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

**Nature of Operations**

The Community Prep School (the School) was organized in 1995 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Colorado Springs School District 11 (the District) in the State of Colorado. The School's mission is to provide students with another way to pursue a high school education with an emphasis on individual needs with small classes that engage students in their own learning. The School is governed by a board consisting of at least five members.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

**Reporting Entity**

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if there is a potential for the organization to provide benefits to, or impose financial burdens on, the School.

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

The School is a component unit of the District. The School's charter was granted by the District and the majority of the School's funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

Separate financial statements are provided for the major governmental fund.

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Notes to Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies** (Continued)

**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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The School reports the following major governmental fund:

*General Fund* - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

**Assets, Liabilities and Net Position/Fund Balance**

*Capital Assets* - Capital assets, which include land, building and building improvements, vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation.

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

Building	40 years
Buildings Improvements	5 - 40 years
Vehicles and Equipment	50 - 10 years

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Notes to Financial Statements  
June 30, 2019

**Note 1: Summary of Significant Accounting Policies** (Continued)

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

*Compensated Absences* - Contracted personnel are allowed to accumulate up to ten days of unused sick and vacation time. Accrued sick and vacation time is not paid upon termination of employment. Therefore, no liability is reported in the financial statements.

*Pensions* - The School participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

*Postemployment Benefits Other Than Pensions (OPEB)* - The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position, and additions to and deductions from the HCTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the HCTF. For this purpose, the HCTF recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned and unassigned balances.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

**Subsequent Events**

We have evaluated subsequent events through September 11, 2019, the date the financial statements were available to be issued.

**Community Prep School**  
*(A Component Unit of Colorado Springs School District 11)*  
Notes to Financial Statements  
June 30, 2019

**Note 2: Deposits and Investments**

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2019, the School had bank deposits of \$397,763 collateralized with securities held by the financial institutions' agents but not in the School's name.

**Investments**

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

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

The School had no investments at June 30, 2019.

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Notes to Financial Statements  
June 30, 2019

**Note 3: Capital Assets**

Changes in capital assets for the year ended June 30, 2019, are summarized below.

<b>Governmental Activities</b>	<b>Balance 6/30/18</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/19</b>
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 285,000	\$ -	\$ -	\$ 285,000
Construction in Progress	-	135,737	-	135,737
<b>Total Capital Assets, Not Being Depreciated</b>	<b>285,000</b>	<b>135,737</b>	<b>-</b>	<b>420,737</b>
<i>Capital Assets, Being Depreciated</i>				
Building	1,365,000	-	-	1,365,000
Building Improvements	74,304	34,693	-	108,997
Vehicles and Equipment	197,630	57,966	(46,993)	208,603
<b>Total Capital Assets, Being Depreciated</b>	<b>1,636,934</b>	<b>92,659</b>	<b>(46,993)</b>	<b>1,682,600</b>
<i>Less: Accumulated Depreciation</i>				
Building	(379,404)	(32,853)	-	(412,257)
Building Improvements	(17,374)	(7,826)	-	(25,200)
Vehicles and Equipment	(124,013)	(14,203)	19,873	(118,343)
<b>Total Accumulated Depreciation</b>	<b>(520,791)</b>	<b>(54,882)</b>	<b>19,873</b>	<b>(555,800)</b>
<b>Total Capital Assets, Being Depreciated, net</b>	<b>1,116,143</b>	<b>37,777</b>	<b>(27,120)</b>	<b>1,126,800</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 1,401,143</b>	<b>\$ 173,514</b>	<b>\$ (27,120)</b>	<b>\$ 1,547,537</b>

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

**Note 4: Defined Benefit Pension Plan**

**General Information**

*Plan Description* - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by (PERA). All employees of the School participate in the SDTF. 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 financial report (CAFR) that includes information on the SDTF that may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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**Note 4: Defined Benefit Pension Plan (Continued)**

**General Information** (Continued)

*Benefits Provided* - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure under which the member retires, the benefit option selected at retirement, and age at retirement. The lifetime retirement benefit is the greater of the a) highest average salary over three years multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on eligible amounts as of the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary, or the amount allowed by applicable federal regulations.

Retirees may elect to withdraw their contributions upon termination of employment 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, 2018, retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, retirees under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5% or the average consumer price index for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1 percent based on the parameters specified C.R.S. § 24-51-413.

Disability benefits are available for eligible plan participants once they reach five years of earned service credit and are determined to meet the definition of a disability. The disability benefit amount is based on the lifetime retirement benefit formula described previously, considering a minimum of twenty 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 in place under which service credit was obtained, and the qualified survivor who will receive the benefits.

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**Note 4: Defined Benefit Pension Plan (Continued)**

**General Information** (Continued)

*Contributions* - The School, eligible employees and the State are required to contribute to the SDTF at a rate set by Colorado statute. These contribution requirements are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. The contribution rate for eligible employees is 8% of covered salaries during the period of July 1, 2018 through June 30, 2019. The School's contribution rate for calendar years 2019 and 2018 was 20.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 5).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SDTF. The School's contributions to the SDTF for the year ended June 30, 2019, were \$287,658, equal to the required contributions.

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

At June 30, 2019, the School reported a net pension liability of \$4,923,864, representing its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated the School were as follows:

School's proportionate share of net pension liability	\$ 5,597,132
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School	(673,268)
	4,923,864
Proportionate share of the net pension liability	\$ 4,923,864

The net pension liability was measured at December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total pension liability to December 31, 2018.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2018, relative to the contributions of all participating employers. At December 31, 2018, the School's proportion was 0.0278073609%, which was a decrease of 0.0000847431% from its proportion measured at December 31, 2017.

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**Note 4: Defined Benefit Pension Plan** (Continued)

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

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*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SDTF are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employer contribution rates for the SDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases 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.

During the year ended June 30, 2019, the direct distribution for the SDTF was \$126,505,000.

For the year ended June 30, 2019, the School recognized pension expense of \$296,100 which includes \$3,459 of support from the state as a nonemployer contributing entity.

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**Note 4: Defined Benefit Pension Plan (Continued)**

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

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 167,023	\$ -
Changes of assumptions and other inputs	919,060	3,062,114
Net difference between projected and actual earnings on plan investments	268,381	-
Changes in proportion	256,843	15,183
Contributions subsequent to the measurement date	132,197	-
Total	\$ 1,743,504	\$ 3,077,297

School contributions subsequent to the measurement date of \$132,197 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>			
2020		\$	443
2021			(937,623)
2022			(675,619)
2023			146,809
Total		\$	(1,465,990)

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**Note 4: 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 actuarial valuation as of December 31, 2017, determined the total pension liability using the following actuarial assumptions and other inputs.

	<b>Assumptions</b>
Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate <sup>1</sup>	4.78%
Future post-employment benefit increases:	
Hired prior to 1/1/2007	0% through 2019 and 1.5% compounded annually thereafter
Hired after 12/31/2006	ad hoc

<sup>1</sup>The discount rate reflected in the roll-forward calculation of the total pension liability to the measurement date was 7.25%.

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

Healthy, post-retirement mortality assumptions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments, 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.

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**Note 4: Defined Benefit Pension Plan (Continued)**

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

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 significant changes affecting the plan included decreasing the investment rate of return assumption from 7.5% per year, compounded annually, net of investment expenses, to 7.25%, and updating mortality assumptions based on RP-2014 mortality tables.

The long-term expected 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 SDTF, 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, as follows:

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

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**Note 4: Defined Benefit Pension Plan (Continued)**

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

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 7.25%. 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 member contribution rates in effect for each year, including the scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include the 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.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process 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. 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 middle of the year.

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**Note 4: 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 SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 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 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.78 percent, 2.47 percent lower 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 School's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the of the net pension liability	\$ 6,259,851	\$ 4,923,864	\$ 3,802,746

*Pension Plan Fiduciary Net Position* - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Note 5: Postemployment Healthcare Benefits**

**General Information**

*Plan Description* - All employees of the School are eligible to receive postemployment benefits other than pensions (OPEB) through the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the HCTF. That report may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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**Note 5: Postemployment Healthcare Benefits** (Continued)

**General Information** (Continued)

*Benefits Provided* - The HCTF provides a healthcare premium subsidy to eligible benefit recipients and retirees who choose to enroll. Eligibility to enroll is voluntary and includes benefit recipients, their eligible dependents and surviving spouses, among others. Eligible benefit recipients may enroll in the HCTF upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period. The health care premium subsidy is based on the benefit structure under which the member retires and the member's years of service credit.

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare, and \$115 per month for benefit recipients who are over 65 years of age or who are under 65 years of age and entitled to Medicare. An additional subsidy is provided if the benefit recipient has not participated in Social Security and is not otherwise eligible for Medicare Part A. The maximum subsidy is based on 20 or more years of service. The subsidy is reduced for each year of service less than 20 years. The benefit recipient pays the remaining portion of the premium not covered by the subsidy.

*Contributions* - As established by Title 24, Article 51, Section 208 of the CRS, 1.02% of the School's contributions to the School Division Trust Fund (SDTF) (see Note 4) is apportioned to the HCTF. No employee contributions are required. These contribution requirements are established and may be amended by the State Legislature. The School's apportionment to the HCTF for the year ended June 30, 2019, was \$15,338, equal to the required amount.

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

At June 30, 2019, the School reported a net OPEB liability of \$245,917, representing its proportionate share of the net OPEB liability of the HCTF. The net OPEB liability was measured at December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2018.

The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2018, relative to the contributions of all participating employers. At December 31, 2018, the School's proportion was 0.0180749437%, which was an increase of 0.002267492% from its proportion measured at December 31, 2017.

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**Note 5: Postemployment Healthcare Benefits (Continued)**

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

For the year ended June 30, 2019, the School recognized OPEB expense of \$27,474. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 893	\$ 374
Changes of assumptions and other inputs	1,725	-
Net difference between projected and actual earnings on plan investments	1,414	-
Changes in proportion	34,583	-
Contributions subsequent to the measurement date	7,049	-
 Total	 \$ 45,664	 \$ 374

School contributions subsequent to the measurement date of \$7,049 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

**Year Ended June 30,**

2020	\$ 7,937
2021	7,937
2022	7,937
2023	8,919
2024	5,308
Thereafter	203
 Total	 \$ 38,241

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**Note 5: Postemployment Healthcare Benefits (Continued)**

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

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2017, determined the total OPEB liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

	<u>Assumptions</u>
Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates:	
Service-based premium subsidy	0%
Medicare plans	5%
Medicare Part A premiums:	
3.25% for 2018, gradually rising to 5.00% in 2025	

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. Healthy, post-retirement mortality assumptions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

Health care cost trend rates are based on published annual health care inflation surveys in conjunction with actual plan experience, building block models and heuristics developed by actuaries and administrators, and other projected trends.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, and were adopted by PERA's governing board on November 18, 2016. In addition, certain actuarial assumptions pertaining to per capita health care costs and the related trends are analyzed by PERA's actuary as needed.

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**Note 5: Postemployment Healthcare Benefits** (Continued)

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

The long-term expected rate of return on the HCTF investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016 and included the target allocation and best estimates of geometric real rates of return for each major asset class, as presented previously (see Note 4).

*Discount Rate* - The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate. Based on this assumption, the HCTF's fiduciary net position was projected to be available to make all projected future OPEB payments to current active and inactive employees. Therefore, the long-term expected rate of return on HCTF investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as the School's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Proportionate share of the net OPEB liability	\$ <u>275,160</u>	\$ <u>245,917</u>	\$ <u>220,917</u>

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**Note 5: Postemployment Healthcare Benefits (Continued)**

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

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates* - The following presents the School's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, ranging from 3% to 5%, as well as the School's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Proportionate share of the net OPEB liability	\$ <u>228,439</u>	\$ <u>245,917</u>	\$ <u>242,686</u>

*OPEB Plan Fiduciary Net Position* - Detailed information about the HCTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Note 6: Commitments and Contingencies**

**Building Acquisition**

In January, 2008, the School purchased its educational facilities from the City of Colorado Springs (the City) for \$1. The terms of the purchase and sale agreement require the property to be used for public educational, classroom purposes for a minimum of twenty-five years. During this period, the City shall have the right of first refusal to purchase the property. After twenty-five years, the City shall not be entitled to any proceeds from any sale of the property.

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2019, significant amounts of related 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.

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**Note 6: Commitments and Contingencies** (Continued)

**TABOR Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue increases, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. However, the School believes it is in substantial compliance with the requirements of the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2019, the School's reserve was reported as restricted fund balance in the General Fund, in the amount of \$85,969.

**Contingency Reserve**

In accordance with its charter agreement with the District, the School is required to maintain a contingency reserve to fund unexpected occurrences. The required reserve must equal 2% of the School's total budgeted aggregate revenues for the succeeding year. At June 30, 2019, the contingency reserve of \$71,540 was reported as restricted fund balance in the General Fund.

**Note 7: Update to Financial Statement**

The financial statement has been updated to reflect a change the School has requested. The School decided, subsequent to the originally issued financial statements, to record On-behalf Special Funding Pension Revenue and the related expense, as opposed to offsetting the revenue against the pension expense. This on-behalf revenue and the related expense has been reflected on the Governmental Statements of Revenue, Expenditures and Changes in Fund Balance as well as Statement of Activities. While the School believes the \$39,988 amount of on-behalf revenue is not material to the financial statements taken as a whole, the School wanted to conform its financial statement presentation as that requested by Colorado Department of Education.

## **Required Supplementary Information**

**Community Prep School**  
*(A Component Unit of Colorado Springs School District 11)*  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability and Contributions**  
**Public Employees' Retirement Association of Colorado School Division Trust Fund**  
**June 30, 2019**

	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
<b>Proportionate Share of the Net Pension Liability</b>						
School's Proportion of the Net Pension Liability	0.0278073609%	0.0278921040%	0.0253592674%	0.0222436460%	0.0216535582%	0.0213965478%
School's Proportionate Share of the Net Pension Liability	\$ 4,923,864	\$ 9,019,315	\$ 7,550,435	\$ 3,402,009	\$ 2,934,784	\$ 2,729,124
School's Covered-Employee Payroll	\$ 1,528,720	\$ 1,286,631	\$ 1,138,145	\$ 969,149	\$ 906,342	\$ 862,684
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	322%	701%	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57%	44%	43%	59%	63%	64%
	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
<b>School Contributions</b>						
Statutorily Required Contribution	\$ 287,658	\$ 263,859	\$ 223,956	\$ 186,520	\$ 153,563	\$ 141,777
Contributions in Relation to the Statutorily Required Contribution	<u>(287,658)</u>	<u>(263,859)</u>	<u>(223,956)</u>	<u>(186,520)</u>	<u>(153,563)</u>	<u>(141,777)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 1,503,707	\$ 1,397,194	\$ 1,218,770	\$ 1,052,008	\$ 910,646	\$ 890,024
Contributions as a Percentage of Covered-Employee Payroll	19.13%	18.88%	18.38%	17.74%	16.86%	15.93%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

**Community Prep School**  
 (A Component Unit of Colorado Springs School District 11)  
 Required Supplementary Information  
 Schedule of Proportionate Share of the Net OPEB Liability and Contributions  
 Public Employees' Retirement Association of Colorado Health Care Trust Fund  
 June 30, 2019

	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>
<b>Proportionate Share of the Net OPEB Liability</b>			
School's Proportion of the Net OPEB Liability	0.0180749437%	0.0158481945%	0.0144142042%
School's Proportionate Share of the Net OPEB Liability	\$ 245,917	\$ 205,963	\$ 186,885
School's Covered Payroll	\$ 1,528,720	\$ 1,286,631	\$ 1,138,145
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	16%	16%	16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	17%	18%	17%
	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>
<b>School Contributions</b>			
Statutorily Required Contribution	\$ 15,338	\$ 14,251	\$ 12,431
Contributions in Relation to the Statutorily Required Contribution	<u>(15,338)</u>	<u>(14,251)</u>	<u>(12,431)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 1,503,707	\$ 1,397,194	\$ 1,218,770
Contributions as a Percentage of Covered Payroll	1.02%	1.02%	1.02%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Budget Comparison Schedule  
General Fund  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<i>Local Sources</i>				
Per Pupil Revenue	\$ 2,411,490	\$ 1,618,916	\$ 1,618,668	\$ (248)
District Mill Levy	583,895	449,068	503,540	54,472
Student Activities	-	-	2,351	2,351
Food Service Fees	-	1,500	4,158	2,658
Contributions and Donations	404,000	1,000	4,757	3,757
Investment Income	-	-	4,652	4,652
Other	4,200	5,200	6,246	1,046
<i>State Sources</i>				
Capital Construction	105,000	61,172	61,173	1
Special Education	-	13,160	43,907	30,747
Grants	-	-	39,988	39,988
Other	-	-	2,953	2,953
<i>Federal Sources</i>				
Special Education	68,400	68,656	74,390	5,734
Supporting Effective Education	-	-	1,818	1,818
Impact Aid	-	-	1,040	1,040
<b>Total Revenues</b>	<u>3,576,985</u>	<u>2,218,672</u>	<u>2,369,641</u>	<u>150,969</u>
<b>Expenditures</b>				
Salaries	1,476,543	1,510,064	1,507,542	2,522
Employee Benefits	586,845	569,028	557,237	11,791
Purchased Services	947,048	600,000	409,581	190,419
Supplies and Materials	186,200	207,000	206,111	889
Property	16,000	-	205,412	(205,412)
Other	104,000	371,000	19,734	351,266
Reserves	99,499	66,560	-	66,560
<b>Total Expenditures</b>	<u>3,416,135</u>	<u>3,323,652</u>	<u>2,905,617</u>	<u>418,035</u>
<b>Net Change in Fund Balance</b>	160,850	(1,104,980)	(535,976)	569,004
<b>Fund Balance, Beginning of year</b>	<u>1,150,140</u>	<u>-</u>	<u>1,583,790</u>	<u>1,583,790</u>
<b>Fund Balance, End of year</b>	<u>\$ 1,310,990</u>	<u>\$ (1,104,980)</u>	<u>\$ 1,047,814</u>	<u>\$ 2,152,794</u>

**Community Prep School**  
(A Component Unit of Colorado Springs School District 11)  
Notes to Required Supplementary Information  
June 30, 2019

**Note 1: Schedule of Proportionate Share of the Net Pension Liability and Contributions**

The Public Employees' Retirement Association of Colorado (PERA) School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2019, , the total pension liability was determined by an actuarial valuation as of December 31, 2017. The following revised economic and demographic assumptions were effective as of December 31, 2017.

- Investment rate of return assumption of 7.25% per year, compounded annually. This assumption did not change from the prior year.
- Price inflation assumption of 2.4% per year. This assumption did not change from the prior year.
- Real rate of investment return assumption decreased from 4.85% per year, net of investment expenses, to 4.78%. The rate reflected in the roll-forward calculation of the collective total pension liability to the measurement date increased from 4.78% to 7.25%.
- Wage inflation assumption of 3.5% per year. This assumption did not change from the prior year.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables.

**Note 2: Stewardship, Compliance and Accountability**

**Budgetary Information**

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures to establish the budgetary information reflected in the financial statements.

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