



Financial Statements of the Operating Segment -  
Aurora Public Schools  
June 30, 2020



Denver School of Science and  
Technology, Inc.

DSST Public Schools  
Operating Segment – Aurora Public Schools  
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June 30, 2020

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## Independent Auditor's Report

The Board of Directors  
Denver School of Science and Technology, Inc.  
Denver, Colorado

### **Report on the Operating Segment – Aurora Public Schools**

We have audited the accompanying financial statements of the governmental activities, balance sheet, and statement of revenues, expenditures, and changes in fund balances for the operating segment – Aurora Public Schools of Denver School of Science and Technology, Inc. (DSST - APS), a component unit of Aurora Public Schools, as of and for the year ended June 30, 2020, and the related notes to the operating segment.

### **Management's Responsibility for the Operating Segment – Aurora Public Schools**

Management is responsible for the preparation and fair presentation of this operating segment 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 the operating segment that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on the operating segment 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 operating segment is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures for the operating segment. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the operating segment, 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 operating segment 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 operating segment.

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 operating segment financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and balance sheet, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in the first paragraph, the financial statements present only DSST – APS, an operating segment of DSST Inc. and do not purport to, and do not present fairly the financial position of DSST Inc., as of June 30, 2020, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Restatement**

As described in Note 7 to the financial statements, certain errors resulting in an overstatement previously reported for net position as of June 30, 2019, were discovered by management of DSST during the current year as a result of DSST adopting the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Accordingly, amounts reported for beginning net position have been restated for the June 30, 2020 financial statements now presented. Our opinions are 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 pension schedules of proportionate share of net pension liability or asset for cost sharing plans, schedule of pension contributions for cost sharing plans, schedule of contributions for OPEB and notes on pages 35 through 39 be presented to supplement the DSST-APS financial statements. Such information, although not a part of the DSST-APS financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the DSST-APS 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the DSST-APS financial statements, and other knowledge we obtained during our audit of the DSST-APS financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the operating segment - APS financial statements (DSST-APS). The budget to actual schedule by school is presented for purposes of additional analysis and is not a required part of the DSST – APS financial statements. The budget to actual schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the DSST-APS financial statements. Such information has been subjected to the auditing procedures applied in the audit of the DSST-APS financial statements and certain additional procedures, including comparing and reconciling such information directly to the

underlying accounting and other records used to prepare the DSST-APS financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget to actual statement by school is fairly stated, in all material respects, in relation to the DSST- APS financial statements as a whole.

*Eide Sallee LLP*

Denver, Colorado  
September 23, 2020

DSST Public Schools  
Operating Segment – Aurora Public Schools  
Statement of Net Position  
June 30, 2020

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Assets	
Cash and cash equivalents	\$ 594,506
Investments	33,700
Restricted permanent endowment	4,411
Accounts receivable, net	153,658
Interfund receivable	190,895
Prepaid expenses	3,986
Capital assets, net of accumulated depreciation	83,953
Total assets	1,065,109
Deferred Outflows of Resources	
Deferred outflows - pension	1,675,155
Deferred outflows - OPEB	60,605
Total deferred outflows of resources	1,735,760
Liabilities	
Accounts payable and accrued expenses	78,126
Accrued salaries and benefits	14,685
Net pension liability	1,592,427
Net OPEB liability	77,638
Total liabilities	1,762,876
Deferred Inflows of Resources	
Deferred inflows - pension	910,949
Deferred inflows - OPEB	14,344
Unavailable revenue	4,304
Total deferred inflows of resources	929,597
Net Position	
Net invested in capital assets	83,953
Restricted for	
Emergencies	111,301
Donations with a specific purpose	7,289
Unrestricted	(94,147)
Total net position	\$ 108,396



DSST Public Schools  
 Operating Segment – Aurora Public Schools  
 Balance Sheet  
 June 30, 2020

	Home Office	Aurora Science & Tech Middle School	Eliminations	Total APS
<b>Assets</b>				
Cash and cash equivalents	\$ 320,810	\$ 273,696	\$ -	\$ 594,506
Investments	33,700	-	-	33,700
Restricted permanent endowment	4,411	-	-	4,411
Accounts receivable	1,184	152,474	-	153,658
Interfund receivable	140,298	50,597	-	190,895
Prepaid expenses	3,986	-	-	3,986
<b>Total assets</b>	<u><u>\$ 504,389</u></u>	<u><u>\$ 476,767</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 981,156</u></u>
<b>Liabilities and Deferred Inflows of Resources and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,971	\$ 75,155	\$ -	\$ 78,126
Accrued salaries & benefits	14,158	527	-	14,685
<b>Total liabilities</b>	<u>17,129</u>	<u>75,682</u>	<u>-</u>	<u>92,811</u>
<b>Deferred inflows of resources</b>				
Permanent endowment	4,304	-	-	4,304
<b>Total deferred inflows of resources</b>	<u>4,304</u>	<u>-</u>	<u>-</u>	<u>4,304</u>
<b>Total liabilities and deferred inflows of resources</b>	<u>21,433</u>	<u>75,682</u>	<u>-</u>	<u>97,115</u>
<b>Fund Balance</b>				
Nonspendable	3,986	-	-	3,986
Restricted	67,993	50,597	-	118,590
Unassigned	410,977	350,488	-	761,465
<b>Total fund balance</b>	<u>482,956</u>	<u>401,085</u>	<u>-</u>	<u>884,041</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u><u>\$ 504,389</u></u>	<u><u>\$ 476,767</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 981,156</u></u>

**DSST Public Schools**  
 Operating Segment – Aurora Public Schools  
 Reconciliation of the Balance Sheet of the Operating Segment –  
 Aurora Public Schools to the Statement of Net Position  
 June 30, 2020

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Reconciliation of total fund balance to amounts reported for operating activity in the statement of net position:

Total fund balance	\$	884,041
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund. This amount is net of accumulated depreciation of \$8,050.		83,953
Deferred outflows and inflows of resources that represent acquisition or consumption of net position that applies to future periods and, therefore, are not reported in the funds		
Deferred outflows - pension		1,675,155
Deferred outflows - OPEB		60,605
Deferred inflows - pension		(910,949)
Deferred inflows - OPEB		(14,344)
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Net pension liability		(1,592,427)
Net OPEB liability		(77,638)
Net position of governmental activities	<u>\$</u>	<u>108,396</u>

DSST Public Schools  
Operating Segment – Aurora Public Schools  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2020

	Home Office	Aurora Science & Tech Middle School	Eliminations	Total APS
<b>Revenues</b>				
Local sources				
Contributions and grants	\$ 3,650	\$ -	\$ -	\$ 3,650
Investment income	18,227	1,255	-	19,482
Mill levy	-	413,790	-	413,790
Supporting services	566,002	237,685	(791,840)	11,847
State sources				
Per pupil revenue	-	1,496,727	-	1,496,727
Supporting services	-	21,738	-	21,738
Federal sources				
Direct federal start-up Grant	1,907	401,834	-	403,741
Total revenues	<u>589,786</u>	<u>2,573,029</u>	<u>(791,840)</u>	<u>2,370,975</u>
<b>Expenditures</b>				
Instructional				
Regular education	83,374	969,059	(149,596)	902,837
Special education	-	98,977	(33,145)	65,832
Supporting services				
Pupil supporting services	7,480	353,765	-	361,245
Instructional support	69,552	58,854	(6,251)	122,155
School administration	256,331	568,835	-	825,166
Business services	351,175	195,614	(534,706)	12,083
Operations and maintenance	5,527	200,574	-	206,101
Central services	-	49,424	-	49,424
Other support services	83,393	42,808	(68,142)	58,059
Total expenditures	<u>856,832</u>	<u>2,537,910</u>	<u>(791,840)</u>	<u>2,602,902</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(267,046)</u>	<u>35,119</u>	<u>-</u>	<u>(231,927)</u>
<b>Other financing sources (uses)</b>				
Transfers in	384,036	365,966	-	750,002
Total other financing sources (uses)	<u>384,036</u>	<u>365,966</u>	<u>-</u>	<u>750,002</u>
Net change in fund balances	116,990	401,085	-	518,075
Fund balances, beginning of year	<u>365,966</u>	<u>-</u>	<u>-</u>	<u>365,966</u>
Fund balances, end of year	<u>\$ 482,956</u>	<u>\$ 401,085</u>	<u>\$ -</u>	<u>\$ 884,041</u>

DSST Public Schools  
 Operating Segment – Aurora Public Schools  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 of the Operating Segment – Aurora Public Schools to the Statement of Activities  
 Year Ended June 30, 2020

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Amounts reported for the operating segment in the statement of activities are different because:

Net change in fund balance - operating segment	\$	518,075
Capital outlays to purchase or build capital assets are reported in the operating activity as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the capital outlay (\$65,503) in excess of the depreciation expense (\$8,050) for the year.		57,453
Some revenue and expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenue or expenditures in the governmental funds.		
Pension expense		(334,894)
OPEB expense		(31,377)
Direct distribution payment from State		13,576
Change in net position of governmental activities	<u>\$</u>	<u>222,833</u>

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

The accounting policies of Denver School of Science and Technology, Inc.'s (DSST or DSST Public Schools) operating segment – Aurora Public Schools (DSST – APS) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the more significant accounting policies.

### **Reporting Entity**

DSST was formed in 2001. In fiscal year 2019, DSST expanded their charter school network by entering into a charter school contract with Aurora Public Schools. The focus of DSST is science, math and technology. DSST-APS is a component unit of Aurora Public Schools. It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado State Statute, Aurora Public Schools has approved the charter of DSST-APS for various periods ending. At the end of the charter period, DSST-APS intends to seek renewal of its charter in accordance with procedures set forth in the state law and school district policy/regulations.

DSST transforms public education by eliminating educational inequity and preparing all students for success in college and the 21st century. DSST is dedicated to providing an outstanding liberal arts education, with a focus on science and technology, to a diverse student population.

### **Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of DSST-APS' financial activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. 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 properly not included among program revenues are reported instead as general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets, and unassigned fund balance is a measure of available spendable resources. This means only current liabilities are generally included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end, except grant revenues are recognized to the extent allowable expenditures have been incurred. Expenditures are recorded when the related fund liability is incurred and expected to be paid with current available resources.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position**

Cash and Cash Equivalents – DSST-APS considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments – Reported at fair value, in accordance with GASB statement 72 except for money market funds which are reported at amortized cost.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Management has determined all accounts to be fully collectible, thus no allowance was necessary.

Prepaid expenses – Payments made to vendors for goods or services that will benefit periods beyond the current year-end are recorded as prepaid expenses.

Capital assets – Capital additions over \$5,000 are recorded at cost, or if donated, at acquisition value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

DSST - APS reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2020.

Beneficial interest in assets help by community foundation – DSST - DPS established a permanent endowment fund (the Fund) at a community foundation and named itself beneficiary. DSST Public Schools granted variance power to the community foundation, which allows the community foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of community foundation’s board of directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by the community foundation for the benefit of DSST Public Schools, and is reported at fair value in the statement of revenue, expenditures, and changes in fund balance with distributions and changes in fair value recognized in the statement of activities.

Intrafund activity – The effects of intrafund activity between the office and individual schools has been eliminated.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (continued)**

Donated services and in-kind contributions – Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant donated professional services or materials were received during fiscal year 2020.

Deferred outflows/inflows of resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. DSST has two items that qualify for reporting in this category. These are shown as pension and OPEB related amounts that include items related to DSST's portion of the Colorado Public Employees Retirement Association (PERA) and Colorado PERA Health Care Trust Fund (HCTF) benefit plans. This includes the difference between expected and actual experience, any changes of assumptions or other inputs, the net difference between projected and actual investment earnings on pension plan investments, the change in employer allocation percentage, the difference between the actual contributions and proportionate share of total contributions, as well as the amortization related to the difference, and the related contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position and government fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. DSST reports four items that qualify for reporting in this category – Permanent endowment, other unavailable revenue, pension and OPEB-related amounts. The pension and OPEB-related amounts include items related to DSST's portion of the Colorado Fire and Police Pension Association (FPPA), Colorado Public Employees Retirement Association (PERA), and Colorado PERA Health Care Trust Fund (HCTF) benefit plans. This includes the difference between expected and actual experience, any changes of assumptions or other inputs, the net difference between projected and actual investment earnings on pension plan investments, the change in employer allocation percentage, the difference between the actual contributions and proportionate share of total contributions, as well as the amortization related to the difference, and the related contributions subsequent to the measurement date.

Net position/fund balance – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. When both restricted and unrestricted resources are available for use, it is DSST's policy to use restricted resources first and the unrestricted resources as they are needed.

Fund balance classification – The financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which DSST-APS 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:

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (continued)**

*Nonspendable* – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. DSST-APS considers prepaid expenses as nonspendable, which total \$3,986 as of June 30, 2020.

*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. DSST-APS has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. Emergencies account for \$111,301 of the restricted fund balance. DSST-APS also has classified donations and promises to give with purpose restrictions as restricted because their use is restricted for expenditures to be incurred in future periods. These restricted amounts total \$7,289. This results in a total restricted balance of \$118,590.

*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. DSST-APS did not have any committed resources as of June 30, 2020.

*Assigned* – This classification includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the Board of Directors, COO, Director of Finance or for specific purposes through the budget process. The assigned designation may be reversed by the Board of Directors. DSST - APS did not have any assigned resources as of June 30, 2020.

*Unassigned* – This classification includes the residual fund balance. As of June 30, 2020 the unassigned balance of \$761,465 was available for DSST-APS to use in order to meet future obligations.

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

**Use of Estimates**

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

**Risk Management**

DSST-APS is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. DSST purchases commercial insurance for these risks of loss. Settled claims did not exceed coverage for the past three years.

DSST – APS financial statements are an operating segment of DSST Public Schools. The financial statements for DSST Public Schools can be obtained by contacting DSST’s Financial Management. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Operating Officer, Denver School of Science and Technology, Inc. 3401 Quebec Street, Suite 2000, Denver, CO 80207.

**Budgets**

A budget is adopted on a basis consistent with generally accepted accounting principles. School management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July. The budgets are 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. All appropriations lapse at fiscal year-end.

**Note 2 - Cash and cash equivalents**

**Deposits**

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, 2020, State regulatory commissioners have indicated that all financial institutions holding deposits for DSST 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. 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. DSST has no policy regarding custodial credit risk for deposits. Cash deposits are held by DSST in a pooled account, the first \$250,000 of which is covered by federal deposit insurance. The amounts in excess of federally insured limits are collateralized with securities held by the financial institution’s agent, but not in DSST-APS’ name.

Cash and cash equivalents at June 30, 2020 consisted of the following:

Cash balance per general ledger	\$	594,506
Deposit in transit		-
Outstanding checks		-
Carrying value of DSST-APS cash in bank	<u>\$</u>	<u>594,506</u>

### **Note 3 - Investments**

Certain assets and liabilities are reported at fair value in the combined financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that DSST Public Schools can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, DSST Public Schools develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to DSST Public Schools' assessment of the quality, risk or liquidity profile of the asset.

A significant portion of DSST-APS' investments are comprised of U.S. corporate bonds and municipal bonds. These investments are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair value of DSST - APS' beneficial interest in assets held by community foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 3 measurements.

DSST-APS’s deposits and investments, like those of other governments, are subject to various risks:

**1) Interest Rate Risk** – State statutes limit investments in U.S. Treasury Agency securities to an original maturity of five years and corporate securities to an original maturity of three years.

**2) Custodial Credit Risk** – The custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, DSST-APS would not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that in the event of the failure of a counterparty to the transaction, DSST-APS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

**3) Concentration Credit Risk** – Colorado statutes 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

DSST-APS did not have any investments requiring categorization of credit risk as of June 30, 2020. DSST-APS’ investment policy follows State statutes. When made, all investments shall be in instruments which mature in less than five years (governmental/agency/ securities) or three years (corporate and bank securities). DSST has 81% of their investments in U.S. Corporate bonds.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2020:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Money market funds (at cost)	\$ 548	\$ -	\$ -	\$ -
U.S. Corporate bonds	15,608	-	15,608	-
Municipal bonds	17,544	-	17,544	-
	<u>\$ 33,700</u>	<u>\$ -</u>	<u>\$ 33,152</u>	<u>\$ -</u>
<b>Beneficial interest in assets held by</b>				
in assets held by community foundation	\$ 4,411	\$ -	\$ -	\$ 4,411

**Note 4 - Capital Assets**

Capital assets activity for the year ended June 30, 2020, is summarized below:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Governmental Activities				
Capital assets being depreciated				
Equipment	\$ 26,500	\$ 65,503	\$ -	\$ 92,003
Total capital assets being depreciated	26,500	65,503	-	92,003
Accumulated depreciation				
Equipment	-	(8,050)	-	(8,050)
Total accumulated depreciation	-	(8,050)	-	(8,050)
Total capital assets being depreciated, net	\$ 26,500	\$ 57,453	\$ -	\$ 83,953

Depreciation expense of \$8,050 has been charged to the Instructional expenses category of DSST-APS. Additionally, additions to capital assets are reported as capital outlay in the fund financial statements as part of Instructional expenditures.

**Note 5 - Employee Benefits**

*Defined Benefit Pension Plan*

**Summary of Significant Accounting Policies**

*Pensions.* DSST-APS participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/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.

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. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of June 30, 2020.

### General Information about the Pension Plan

*Plan description.* Eligible employees of the DSST are provided with pensions through the 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 (CAFR) that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided as of December 31, 2019.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

The lifetime retirement benefit for all eligible retiring employees under the Aurora Public Schools (APS) 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, 2019, 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., once certain criteria are met. Pursuant to SB 18-200, the annual increase for 2019 is 0.00 percent for all benefit recipients. Thereafter, benefit recipients 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 of 1.25 percent unless adjusted by the automatic adjustment provision (AAP) pursuant to C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment on or after January 1, 2007, will receive the lesser of an annual increase of 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the SCHDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

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 lifetime retirement benefit formula(s) 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, 2020:* Eligible employees of, DSST and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 8.75 percent of their PERA-includable salary during the period of July 1, 2019 through June 30, 2020. Employer contribution requirements are summarized in the table below:

	July 1, 2019 Through June 30, 2020
Employer contribution rate	10.40%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)
Amount apportioned to the SCHDTF	9.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	5.50%
<b>Total employer contribution rate to the SCHDTF</b>	<b>19.38%</b>

Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 24-51-414, 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 SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund and Judicial Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

Subsequent to the SCHDTF’s December 31, 2019, measurement date, HB 20-1379 *Suspend Direct Distribution to PERA Public Employees Retirement Association for 2020-21 Fiscal Year*, was passed into law during the 2020 legislative session and signed by Governor Polis on June 29, 2020. This bill suspends the July 1, 2020, \$225 million direct distribution allocated to the State, School and Judicial, as required under Senate Bill 18-200.

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the DSST is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from DSST were \$120,124 for the year ended December 31, 2019.

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

The net pension liability for the SCHDTF was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll-forward the total pension liability to December 31, 2019. The DSST proportion of the net pension liability was based on DSST contributions to the SCHDTF for the calendar year 2019 relative to the total contributions of participating employers and the State as a nonemployer contributing entity.

At June 30, 2020, DSST-APS reported a liability of \$1,592,427 for 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 DSST 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 with DSST were as follows:

DSST proportionate share of the net pension liability	\$1,592,427
The State’s proportionate share of the net pension liability as a nonemployer contributing entity associated with DSST	\$1,681,628,289
Total	\$1,683,220,716

At December 31, 2019, the DSST-APS proportion was 0.011 percent, which was an increase of .009 from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, DSST-APS recognized pension expense of \$334,894. At June 30, 2020, DSST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 88,067	\$ -
Changes of assumptions or other inputs	45,461	722,310
Net difference between projected and actual earnings on pension plan investments	-	188,639
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,448,495	-
Contributions subsequent to the measurement date	93,132	N/A
Total	\$ 1,675,155	\$ 910,949

\$93,132 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30,</b>	
2021	\$ 200,674
2022	307,015
2023	227,555
2024	(64,169)
2025	-
Thereafter	-
Total	\$ 671,074

*Actuarial assumptions.* The total pension liability in the December 31, 2018 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	7.25 percent

Post-retirement benefit increases: PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic) <sup>1</sup>	1.25 percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) <sup>1</sup>	Financed by the Annual Increase Reserve

<sup>1</sup> For 2019, the annual increase was 0.00 percent.

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.

Post-retirement non-disabled mortality assumptions 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 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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

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

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

Asset Class	Target Allocation	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%
<b>Total</b>	<b>100.00%</b>	

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 percent.

*Discount rate.* The discount rate used to measure the total pension 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:

- 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 percent.
- 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 and the additional 0.50 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. 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 and the additional 0.50 percent, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions reflect 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 provides an annual direct distribution of \$225 million, which commenced July 1, 2018, that is proportioned between the State, School and Judicial 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.
- The projected benefit payments reflect the lowered annual increase cap, from 1.50 percent to 1.25 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SCHDTF'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 rate determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the DSST 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 2,111,899	\$ 1,592,427	\$ 1,156,285

*Pension plan fiduciary net position.* Detailed information about the SCHDTF’s fiduciary net position is available in PERA’s CAFR which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Defined Benefit Other Post Employment Benefit (OPEB) Plan*

**Summary of Significant Accounting Policies**

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

**General Information about the OPEB Plan**

*Plan description.* Eligible employees of DSST-APS 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 (CAFR) that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

#### *PERA Benefit Structure*

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

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

*DPS Benefit Structure*

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and DSST-APS is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from DSST-APS were \$6,335 for the year ended June 30, 2020.

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

At June 30, 2020, DSST reported a liability of \$77,658 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2019. DSST proportion of the net OPEB liability was based on DSST contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

At December 31, 2019, DSST proportion was 0.007 percent, which was an increase of 0.006 from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, DSST recognized OPEB expense of \$31,377. At June 30, 2020, DSST reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 258	\$ 13,049
Changes of assumptions or other inputs	644	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,295
Changes in proportion and differences between contributions recognized and proportionate share of contributions	58,743	-
Contributions subsequent to the measurement date	960	N/A
Total	\$ 60,605	\$ 14,344

\$54,854 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ended June 30:</b>	
2021	\$ 12,056
2022	12,056
2023	12,056
2024	12,056
2025	(2,430)
Thereafter	(493)
Total	\$ 45,301

*Actuarial assumptions.* The total OPEB liability in the December 31, 2018 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	5.60 percent in 2019, gradually decreasing to 4.50 percent in 2029

Medicare Part A premiums	3.50 percent in 2019, gradually increasing to 4.50 percent in 2029
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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.

The actuarial assumptions used in the December 31, 2018, valuation 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 discussed below.

In determining the additional liability for PERACare enrollees who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2019 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	\$601	\$240
Kaiser Permanente Medicare Advantage HMO	605	237

The 2019 Medicare Part A premium is \$437 per month. In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	\$562
Kaiser Permanente Medicare Advantage HMO	571

All costs are subject to the health care cost trend rates, as discussed below.

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2018, 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
2019	5.60%	3.50%
2020	8.60%	3.50%
2021	7.30%	3.50%
2022	6.00%	3.75%
2023	5.70%	3.75%
2024	5.50%	3.75%
2025	5.30%	4.00%
2026	5.10%	4.00%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

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.

Post-retirement non-disabled 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.

Post-retirement non-disabled 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 health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- 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 2019 plan year.
- The morbidity assumptions were updated to reflect the assumed standard aging factors.
- 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 long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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

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

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

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 percent.

*Sensitivity of DSST 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
Initial PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$75,795	\$77,658	\$79,770

*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, 2019, 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 percent.
- 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.
- 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.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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 DSST’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	\$87,786	\$77,638	\$68,961

OPEB plan fiduciary net position. Detailed information about the HCTF’s fiduciary net position is available in PERA’s CAFR which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

## **Note 6 - Commitments and Contingencies**

### **Claims and Judgments**

DSST - APS 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, DSST – APS may be required to reimburse the grantor government. As of June 30, 2020, disallowed expenditures, if any, will not have a material effect on the overall financial position of DSST – APS.

### **Tabor Amendment**

Colorado voters approved an amendment to the State Constitution, Article X, Section 20 (commonly known as “TABOR”), which limits state and local government taxing authority 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. DSST believes it has complied with the Amendment. As required by the Amendment, DSST has established a reserve for emergencies, representing 3% of 2020 budgeted expenditures.

## **Note 7 - Subsequent Event**

Prior to and subsequent to year-end, DSST has been negatively impacted by the effects of the worldwide COVID-19 pandemic. DSST – APS is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to DSST – APS’s financial position is not known.

## **Note 8 - Restatement**

During fiscal year 2020, the DSST-APS identified misstatements within the fiscal year 2019 financial statements related to transactions pertaining to pension amounts and its inclusion in PERA.

DSST-APS restated its previously issued financial statements to appropriately reflect the June 30, 2019, net position for the year ended June 30, 2019.

The following is a summary of the restatement in DSST-APA’s June 30, 2019 government-wide beginning net position:

	<b>Primary Government</b>
Net position as previously reported July 1, 2019	\$ 392,466
Restatement - implementation of GASB Statement No. 68:	
Defined benefit pension plan - net liability	
Net pension liability and contributions subsequent to the measurement date (measurement date as of 12/31/2018)	(506,903)
Net position as restated, July 1, 2019	\$ (114,437)



## Required Supplementary Information

Operating Segment - Aurora Public Schools

June 30, 2020



Denver School of Science and  
Technology Inc.

**DSST Public Schools**  
 Operating Segment – Aurora Public Schools  
 Schedule of Proportionate Share of Net Pension Liability  
 Public Employees Retirement Association of Colorado (PERA)  
 Last Two Fiscal Years (1)

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	2018	2019
DSST-APS's proportion of net pension liability/(asset)	0.00213%	0.01066%
DSST-APS's proportionate of net pension liability/(asset)	\$ 377,321	\$ 1,592,427
DSST-APS's covered payroll	\$ 48,775	\$ 625,537
DSST-APS's proportionate share of the net pension liability/(asset) as a percentage of its covered payroll	773.6%	254.6%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	57.0%	64.5%

(1) - DSST-APS entered the plan in fiscal year 2019. Information prior to that is not available.

\*The amounts presented for each year were determined as of December 31, the measurement date used by DSST-APS.

**DSST Public Schools**  
 Operating Segment – Aurora Public Schools  
 Schedule of Proportionate Share of Net OPEB Liability  
 Public Employees Retirement Association of Colorado (PERA)  
 Last Two Fiscal Years (1)

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	2019
DSST-APS's proportion of net OPEB liability/(asset)	0.01066%
DSST-APS's proportionate of net OPEB liability/(asset)	\$ 77,638
DSST-APS's covered payroll	\$ 625,537
DSST-APS's proportionate share of the net OPEB liability/(asset) as a percentage of its covered payroll	12.4%
Plan fiduciary net position as a percentage of the total OPEB liability/(asset)	64.5%

(1) - DSST-APS entered the plan in fiscal year 2019. Information prior to that is not available.

\*The amounts presented for each year were determined as of December 31, the measurement date used by DSST-APS.

**DSST Public Schools**  
 Operating Segment – Aurora Public Schools  
 Schedule of Contributions – Pension  
 Public Employees Retirement Association of Colorado (PERA)  
 Last Two Fiscal Years (1)

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	2018	2019
Contractually required contributions	\$ 22,410	\$ 120,124
Contributions in relation to the contractually required contribution	(22,410)	(120,124)
Contribution deficiency (excess)	\$ -	\$ -
DSST-APS's covered payroll	\$ 625,537	\$ 1,014,206
Contributions as a percentage of covered payroll	3.6%	11.8%

(1) - DSST-APS entered the plan in fiscal year 2019. Information prior to that is not available.

**DSST Public Schools**  
 Operating Segment – Aurora Public Schools  
 Schedule of Contributions – Other Postemployment Benefits  
 Public Employees Retirement Association of Colorado (PERA)  
 Last Two Fiscal Years (1)

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	2019
Contractually required contributions	\$ 6,335
Contributions in relation to the contractually required contribution	(6,335)
Contribution deficiency (excess)	\$ -
DSST-APS's covered payroll	\$ 1,014,206
Contributions as a percentage of covered payroll	0.6%

(1) - DSST-APS entered the plan in fiscal year 2019. Information prior to that is not available.

**Note 1 - Pension and OPEB Related Disclosures**

GASB 68 and GASB 75, require disclosure of DSST-APS's proportionate share of the net pension liability at the measurement date and contributions to the pension plan for the previous 10-year period. Until a full 10-year trend is compiled, DSST-APS is presenting information for those years for which information is available.



## Other Supplementary Information

Operating Segment – Aurora Public Schools

June 30, 2020



Denver School of Science and  
Technology Inc.

DSST Public Schools  
Operating Segment – APS  
Budgetary Comparison Schedule – Aurora Science and Tech Middle School  
Year Ended June 30, 2020

	Final Budget	Actual	Variance Over/Under
<b>Revenues</b>			
Local sources			
Investment Income	\$ -	\$ 1,255	\$ 1,255
Mill Levy	322,500	413,790	91,290
Supporting Services	774,627	237,685	(536,942)
State sources			
Per Pupil Revenue	1,278,858	1,496,727	217,869
Supporting Services	21,114	21,738	624
Federal Revenues			
Title funds from Denver Public Schools	7,757	-	(7,757)
Direct Federal Start-Up Grant	300,000	401,834	101,834
Total revenues	<u>2,704,856</u>	<u>2,573,029</u>	<u>(131,827)</u>
<b>Expenditures</b>			
Instructional			
Regular education	1,355,173	969,059	386,114
Special education	-	98,977	(98,977)
Supporting services			
Pupil supporting services	417,105	353,765	63,340
Instructional support	-	58,854	(58,854)
School administration	218,134	568,835	(350,701)
Business services	366,008	195,614	170,394
Operations and maintenance	314,074	200,574	113,500
Pupil transportation	31,800	-	31,800
Central services	-	49,424	(49,424)
Other support services	2,562	42,808	(40,246)
Total expenditures	<u>2,704,856</u>	<u>2,537,910</u>	<u>166,946</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>35,119</u>	<u>35,119</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	365,966	365,966
Total other financing sources (uses)	<u>-</u>	<u>365,966</u>	<u>365,966</u>
Net change in fund balances	-	401,085	401,085
Fund balances, beginning of year	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 401,085</u>	<u>\$ 401,085</u>