

**PAGOSA PEAK OPEN SCHOOL
PAGOSA SPRINGS, COLORADO**

FINANCIAL STATEMENTS

June 30, 2020



Wall,
Smith,
Bateman Inc.
Certified Public Accountants

PAGOSA PEAK OPEN SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Pagosa Peak Open School
Pagosa Springs, Colorado



Wall,
Smith,
Bateman Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pagosa Peak Open School (the School), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2020, and the respective changes in financial position, and,

Certified Public Accountants

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where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The nonmajor budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2021 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

February 26, 2021

Management's Discussion and Analysis

As management of the Pagosa Peak Open School (the "School") we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

At the close of its 3rd year of operation, the assets and deferred outflows of the School exceeded its liabilities and deferred inflows by \$518,409 (net position) an increase of \$1,506,087.

The School's unrestricted net position shows a deficit of \$992,846 and is primarily the result of GASB Statements 68 and 75, which require the School to report its proportionate share of the PERA School Division Statewide Defined Benefit Pension Plan and Post Employment Benefit Plan Other Than Pensions ("OPEB") net pension liabilities and related deferred inflows and outflows of resources. Over time, PERA is expected to eliminate its unfunded pension obligation through increased contribution rates and additional funding from the State of Colorado.

The effect of the PERA pension and OPEB liabilities on the School's net position is summarized below.

	Governmental Activities	
	6/30/2020	6/30/2019
Net Position (GAAP Basis)	\$ 518,409	\$ (987,678)
Net Pension Liability	1,411,165	1,118,741
Net OPEB Liability	69,365	55,874
Deferred Outflow of Resources related to Pensions and OPEB	(913,829)	(861,715)
Deferred Inflows of Resources related to Pensions and OPEB	839,229	820,658
Net Position Excluding Pensions:	<u>\$ 1,924,339</u>	<u>\$ 145,880</u>

At the close of the fiscal year the School's governmental funds reported a combined ending fund balance of \$319,885, an increase of \$183,004.

The School's operations are funded primarily through tax revenue received under Colorado's School Finance Act (Per Pupil Revenue, or PPR).

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the 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, in a manner similar to a private-sector business.

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

The statement of activities presents information showing 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 only result in cash flows in future fiscal periods (e.g., uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide financial statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue (PPR) or property, income, and sales taxes passed through from the School's chartering district (Archuleta County School District 50JT) received from the County and State. The governmental activities of the School include instruction and supporting expenses as well as interest and fiscal charges.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

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. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major. Non-major funds include the activity fund.

Proprietary Funds – The School maintains one type of proprietary fund, the Building Corporation Internal Service Fund. The Internal Service Fund is used to report the activities of the School's Building Corporation. The Building Corporation exists entirely for the benefit of the School and is included in the School's financial statements as an internal service fund. The Building Corporations statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows can be found on pages 14-16 of this report.

Budget

School adopts an annual appropriated budget for its general fund, designated grants fund, and activity fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 17-41 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of School, assets exceeded liabilities by \$518,409 for all government funds as the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities	
	6/30/2020	6/30/2019
Current and Other Assets	\$ 621,609	\$ 275,809
Capital Assets	4,374,630	8,999
Total Assets	4,996,239	284,808
Deferred Outflows of Resources	913,829	861,715
Current and Other Liabilities	219,591	138,928
Non current Liabilities	4,332,839	1,174,615
Total Liabilities	4,552,430	1,313,543
Deferred Inflows of Resources	839,229	820,658
Net Position		
Net Investment in Capital Assets	1,478,255	8,999
Restricted	33,000	51,302
Unrestricted	(992,846)	(1,047,979)
Total Net Position	\$ 518,409	\$ (987,678)

The largest portion of the School's assets (88%) is in net capital assets. 12% percent of total assets represent cash and investments. The School's net position shows an increase of \$1,506,087 over the prior year. This increase in net position is primarily due \$1,600,000 in capital grants and contributions that was received as part of the School's building purchase.

Statement of Activities

	Governmental Activities	
	6/30/2020	6/30/2019
Revenues		
Program Revenues		
Charges for Services	\$ -	\$ 16,545
Operating Grants	458,418	392,767
Capital Grant	1,628,443	26,394
General Revenues		
District Mill Levy	91,617	82,198
Per Pupil Revenue	877,390	722,349
Investment Earnings	2,709	353
Gloss on Disposal of Capital Assets	-	(11,500)
Other	-	3,248
Total Revenues	3,058,577	1,232,354
Expenses		
Instruction	888,629	660,131
Supporting Services	663,861	413,396
Interest and Fiscal Charges	-	2,761
Total Expenses	1,552,490	1,076,288
Increase (Decrease in Net Postion)	1,506,087	156,066
Net Postion, Beginning	(987,678)	(1,143,744)
Net Postion Ending	\$ 518,409	\$ (987,678)

Financial Analysis of the Government's Funds

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the current fiscal year, June 30, 2020 the School's governmental funds reported a combined ending fund balance of \$319,885, an increase of \$183,004. The increase can be attributed to the School receiving \$154,149 in PPP loan proceeds as a result of the COVID-19 pandemic. The loan was forgiven in February 2021. The loan proceeds were recorded as grant revenue in the School's General Fund.

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. Enrollment for FY 20/21 continues to grow and is currently 120 funded pupil count. We currently project an increase in fund balance for FY 20/21 of \$18,125.

Capital Asset and Debt Administration

Capital Assets. School's net investment in capital assets increased \$1,469,256. In April of 2020, the School's Building Corporation purchased a building. The building and land were capitalized at a cost of \$4,343,063. Total accumulated depreciation for FY 2019/2020 was \$17,261 resulting in net capital assets of \$4,374,630. Detailed information can be found on page 24 of this report.

Long-Term Debt

The School entered into a \$2,900,000 loan agreement with the U.S Department of Agriculture in May 2020. Proceeds of the loan were used to purchase the School's building. The loan carries an interest rate of 2.375%. Monthly principal and interest payments in the amount of \$9,365 are due through April 2060. Detailed information can be found on page 25 of this report.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count was 88 for 2019 and 112 for 2020. Funded pupil count for 2021 is 120.

Per Pupil Revenue was initial expected to decline significantly as a result of the COVID-19 pandemic and revenue shortfalls at the state level. However, per pupil revenue for the School increased by \$404.10 from \$7,740.90 in 2020 to \$8,145 in 2021.

Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pagosa Peak Open School, 7 Parelli Way, Pagosa Springs, CO 81147.

PAGOSA PEAK OPEN SCHOOL
BASIC FINANCIAL STATEMENTS

PAGOSA PEAK OPEN SCHOOL
STATEMENT OF NET POSITION
June 30, 2020

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets	
Cash	\$ 609,681
Intergovernmental Receivable	9,855
Prepaid Expenses	2,073
Total Current Assets	<u>621,609</u>
Noncurrent Assets	
Capital Assets	
Land	715,000
Construction in Progress	21,539
Building	3,628,063
Equipment	27,289
Less: Accumulated Depreciation	(17,261)
Total Noncurrent Assets	<u>4,374,630</u>
TOTAL ASSETS	<u>4,996,239</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	858,714
OPEB	55,115
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>913,829</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	25,914
Unearned Grant Revenue	143,878
Accrued Interest Expense	5,733
Note Payable	44,066
Total Current Liabilities	<u>219,591</u>
Noncurrent Liabilities	
Notes Payable	2,852,309
Net Pension Liability	1,411,165
Net OPEB Liability	69,365
Total Noncurrent Liabilities	<u>4,332,839</u>
TOTAL LIABILITIES	<u>4,552,430</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	826,415
OPEB	12,814
DEFERRED INFLOWS OF RESOURCES	<u>839,229</u>
NET POSITION	
Net Investment in Capital Assets	1,478,255
Restricted for TABOR	33,000
Unrestricted	(992,846)
TOTAL NET POSITION	<u>\$ 518,409</u>

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government
Primary Government					
Governmental Activities					
Instructional Program	\$ 888,629	\$ -	\$ 402,260	\$ 1,628,443	\$ 1,142,074
Student Supporting Services	663,861	-	56,158	-	(607,703)
Total Governmental Activities	<u>\$ 1,552,490</u>	<u>\$ -</u>	<u>\$ 458,418</u>	<u>\$ 1,628,443</u>	<u>534,371</u>

General Revenues:

Per Pupil Revenue	877,390
District Mill Levy	91,617
Interest and Miscellaneous	2,709
Total General Revenues	<u>971,716</u>

Change in Net Position 1,506,087

Net Position, Beginning of Year (987,678)

Net Position, End of Year \$ 518,409

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2020

	GENERAL	DESIGNATED	NONMAJOR	TOTAL
	FUND	GRANTS	FUND	GOVERNMENTAL
	FUND	FUND	ACTIVITY	FUNDS
	FUND	FUND	FUND	FUNDS
ASSETS				
Cash	\$ 303,378	\$ 137,559	\$ 12,367	\$ 453,304
Accounts Receivable	21,737	-	-	21,737
Intergovernmental Receivable	3,536	6,319	-	9,855
Prepaid Expenditures	2,073	-	-	2,073
TOTAL ASSETS	330,724	143,878	12,367	486,969
LIABILITIES				
Accounts Payable	23,206	-	-	23,206
Unearned Grant Revenue	-	143,878	-	143,878
TOTAL LIABILITIES	23,206	143,878	-	167,084
FUND BALANCE				
Nonspendable				
Prepaid Expenditure	2,073	-	-	2,073
Restricted for:				
TABOR 3% Reserve	33,000	-	-	33,000
Assigned for:				
Subsequent Expenditures	110,000	-	-	110,000
Unassigned	162,445	-	12,367	174,812
TOTAL FUND BALANCE	307,518	-	12,367	319,885
TOTAL LIABILITIES AND				
FUND BALANCE	\$ 330,724	\$ 143,878	\$ 12,367	\$ 486,969

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION
June 30, 2020

Total governmental fund balances	\$ 319,885
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,999
Deferred results and contributions to pension and OPEB plans made after the measurement date are recorded as expenditures in the governmental funds, but must be deferred in the statement of net position.	913,829
Net pension and OPEB liabilities are not due and payable in the current period and are not reported in the funds.	(1,480,530)
Certain amounts related to the net pension and OPEB liabilities are deferred and amortized over time. These are not reported in the funds.	(839,229)
The Internal Service Fund is used by management to account for the activities of the Pagosa Peak Open School Building Corporation. The assets and liabilities of this fund are included in the governmental activities of the statement of net position.	<u>1,596,455</u>
Net position of governmental activities	<u><u>\$ 518,409</u></u>

PAGOSA PEAK OPEN SCHOOL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
For the Year Ended June 30, 2020

	GENERAL	DESIGNATED	NONMAJOR	TOTAL
	FUND	GRANTS	FUND	GOVERNMENTAL
	FUND	FUND	ACTIVITY	FUNDS
	FUND	FUND	FUND	FUNDS
REVENUES				
Local Sources	\$ 130,249	\$ 131,822	\$ 28,825	\$ 290,896
State Sources	52,238	63,799	-	116,037
Federal Sources	-	20,007	-	20,007
Other Sources	1,031,637	-	-	1,031,637
TOTAL REVENUES	<u>1,214,124</u>	<u>215,628</u>	<u>28,825</u>	<u>1,458,577</u>
EXPENDITURES				
Current Expenditures				
Instructional Program	482,507	174,904	16,458	673,869
Student Support Services	15	-	-	15
Instructional Staff Support Services	8,265	5,000	-	13,265
General Administration Support Services	54,941	1,335	-	56,276
School Administration Support Services	235,945	-	-	235,945
Business Support Services	67,611	34,100	-	101,711
Operations and Maintenance of Plant Services	168,489	-	-	168,489
Central Support Services	25,714	-	-	25,714
Food Services	-	289	-	289
TOTAL EXPENDITURES	<u>1,043,487</u>	<u>215,628</u>	<u>16,458</u>	<u>1,275,573</u>
NET CHANGE IN FUND BALANCE	170,637	-	12,367	183,004
Fund Balance, Beginning of Year	<u>136,881</u>	<u>-</u>	<u>-</u>	<u>136,881</u>
Fund Balance, End of Year	<u>\$ 307,518</u>	<u>\$ -</u>	<u>\$ 12,367</u>	<u>\$ 319,885</u>

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 183,004
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the activity in capital assets in the current period.

Depreciation expense	(1,000)
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Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. This item represents the change in pension and OPEB expense.

	(272,372)
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The Internal Service Fund is used by management to account for the activities of the Pagosa Peak Open School Building Corporation. The net revenue (expense) of the internal service fund is charged to governmental activities.

	<u>1,596,455</u>
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Change in net position of governmental activities	<u>\$ 1,506,087</u>
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PAGOSA PEAK OPEN SCHOOL
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2020

	Governmental Activities
	Internal Service Fund
ASSETS	
Current Assets	
Cash	\$ 156,377
Total Current Assets	<u>156,377</u>
Noncurrent Assets	
Capital Assets	
Land	715,000
Construction in Progress	21,539
Building	3,628,063
Equipment	17,290
Less: Accumulated Depreciation	<u>(15,261)</u>
Total Noncurrent Assets	<u>4,366,631</u>
TOTAL ASSETS	<u>4,523,008</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	24,445
Accrued Interest Payable	5,733
Note Payable	<u>44,066</u>
	74,244
Noncurrent Liabilities	
Note Payable	<u>2,852,309</u>
TOTAL LIABILITIES	<u>2,926,553</u>
NET POSITION	
Net Investment in Capital Assets	1,470,256
Unrestricted	<u>126,199</u>
TOTAL NET POSITION	<u><u>\$ 1,596,455</u></u>

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2020

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Lease income	\$ 26,000
TOTAL OPERATING REVENUES	<u>26,000</u>
OPERATING EXPENSES	
Utilities	2,811
Depreciation Expense	<u>15,261</u>
TOTAL OPERATING EXPENSES	<u>18,072</u>
OPERATING INCOME (LOSS)	7,928
NONOPERATING REVENUES (EXPENSES)	
Capital Grant	600,000
Donation	1,000,000
Interest Expense	<u>(11,473)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	1,588,527
CHANGE IN NET POSITION	1,596,455
NET POSITION, Beginning of Year	<u>-</u>
NET POSITION, End of Year	<u><u>\$ 1,596,455</u></u>

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Cash Received from Lease Agreement	\$ 26,000
Cash Payments for Operating Expenses	(103)
Net Cash Provided (Used) by Operating Activities	25,897
Cash Flows from Noncapital Financing Activities	-
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(4,360,155)
Loan Proceeds	2,900,000
Capital Contribution	1,000,000
Grant Proceeds	600,000
Principal Paid on Note	(3,625)
Interest Paid on Note	(5,740)
Net Cash Provided (Used) by Capital and Related Financing Activities	130,480
Cash Flows from Investing Activities	-
Net Increase (Decrease) in Cash and Cash Equivalents	156,377
Cash and Cash Equivalents, Beginning of Year	-
Cash and Cash Equivalents, End of Year	<u><u>\$ 156,377</u></u>
Operating Income (Loss)	\$ 7,928
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	15,261
Increase (decrease) in:	
Accounts payable	2,708
Net cash provided (used) by operating activities	<u><u>\$ 25,897</u></u>

The accompanying notes are an integral part of this financial statement.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pagosa Peak Open School (the “School”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Financial 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 the organization has the potential to provide benefits to, or impose financial burdens on the School.

The Pagosa Peak Open School Building Corporation (PPOSBC or the Corporation) is considered to be financially accountable to the School. The purpose of the Corporation is to hold title to real and/or personal property for and for making the same available for use by Pagosa Peak Open School, and to otherwise provide a public building, facilities, and equipment. The Corporation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School’s financial statements as a proprietary fund. Separate financials are not available.

The School is a component unit of the Archuleta School District 50JT (the District). The School’s charter is authorized by the District and the majority of the School’s funding is provided by the District. The District passes through 95% of the per pupil revenue and mill levies to the School, maintaining 5% as an administrative fee. It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school as does any other school program or school building within a school district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. The School has organized as non-profit corporations under the laws of the State of Colorado and Section 501(c)(3) of the Internal Revenue Code. The School was created to help guide students in development of their character and academic potential through an academically rigorous, content rich educational program.

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School does not report any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

Amounts reported as Program revenues include:

- Charges to customers or applicants for goods, services, or privileges provided;
- Operating grants and contributions; and
- Capital grants and contributions.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all District flow through per pupil funding.

Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned; 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.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Entitlement revenues are recognized to the extent of related expenditures or when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts and an unearned revenue account is established when receipts exceed the related expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

All other revenue items are considered to be measurable and available only when cash is received by the government.

The School reports the following major governmental funds:

- General Fund This fund is the primary operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.
- Designated Grants Fund This special revenue fund is used to account for the proceeds received from various Colorado Department of Education and outside Foundation grants and donations.

Proprietary fund financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is dependent upon determination of net income, financial position, and cash flows.

The School reports the following internal service fund:

- Building Corporation Fund This fund used is used to account for the activities for the Pagosa Peak School Building Corporation.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

The proprietary fund is accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned and expenses are recognized when the liabilities are incurred.
- Current-year contributions, administrative expenses, and premium payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Certain eliminations have been made as prescribed in GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all funds. All annual appropriations lapse at fiscal year-end.

The School adheres to the procedures described below in establishing the budgetary data reflected in the financial statements.

- Budgets are required by state law for all funds. By May 31, the Administrators submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All budgets lapse at year-end.
- Prior to June 30, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- Budgeted amounts reported in the accompanying financial statements are as originally adopted by the Board of Education.

Stewardship

The Building Corporation Fund is a 501(c)(3) nonprofit, therefore no budget was adopted during FY2020.

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

Cash

The School's cash and cash equivalents are considered to be cash-on-hand and demand deposits, which are deposited in checking accounts which are legally authorized.

Deposits

All deposits are reported at their gross value.

Due from Primary Government

Activities with the primary government that are representative of cash held by the primary government at the end of the fiscal year are reported as accounts receivable and accounts payable in the financial statements. There was \$21,737 reported as of June 30, 2020. The School is reporting \$6,319 of grants receivable from the Colorado Department of Education that flow through the District at year end.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

Prepaid Items

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

Capital Assets

Capital Assets, which include property, buildings, and equipment, are reported as governmental activity capital assets if acquired through operating resources. 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 will be recorded at historical cost or estimated historical cost if purchased or constructed. Where cost cannot be determined from the available records, estimated historical cost will be used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Property, buildings and equipment of the School will be depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30-40
Building Improvements	10-20
Equipment	15

Unearned Revenues

Unearned revenues are amounts that have been collected but have not met the requirements needed for revenue recognition.

Long-Term Obligations

Long-term obligations in the government-wide financial statements are reported as liabilities in the applicable activity.

Vacation, Sick Leave, and Other Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. Except for sick leave, compensated absences do not vest or accumulate and are recorded as expenditures when they are paid. Since all employees are contracted to work a set number of days during a year, no vacation accrual accumulates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

Net Position/Fund Balance

In the government-wide financial statements and for the proprietary fund statements, net position is either shown as net investment in capital assets, with these assets essentially being nonexpendable; restricted when constraints placed on the net position are externally imposed; or unrestricted.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
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For the governmental fund presentation, fund balances that are classified as “nonspendable” include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Fund balance is reported as “restricted” when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

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

Amounts that a government intends to use for a specific purpose; intent is expressed by the Board of Education, are reported as “assigned” fund balance.

All remaining fund balance in the General Fund is presented as “unassigned”.

Net Position/Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance, if allowed under the terms of the restriction.

Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Revenues and Expenditures

Revenues for governmental funds are recorded when they become measurable and available. Generally, per-pupil operating revenues and fees are recognized when received. Grants from other governments are recognized to the extent of related expenditures, or when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts and a deferred revenue account is established when receipts exceed the related expenditures. Expenditures for governmental funds are generally recognized when the related liability is incurred.

Pensions

The School 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.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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.

Other Postemployment Benefits (OPEB)

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

Reclassification

Certain reclassifications have been made to the prior year financial statement presentation to correspond to the current year's format. Total net position/fund balance and change in net position/fund balance are unchanged by these reclassifications.

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2020 were as follows:

Cash & Cash Equivalents	<u><u>\$ 609,681</u></u>
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This balance is presented in the financial statements as follows:

Governmental Activities - Unrestricted	<u><u>\$ 609,681</u></u>
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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. The School's cash and investment balances are collateralized as follows:

	Bank Balance	Carrying Balance
FDIC Insured	<u><u>\$ 619,491</u></u>	<u><u>\$ 609,681</u></u>

At June 30, 2020, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 percent of the uninsured deposits.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

Custodial Credit Risk

Deposits in financial institutions, reported as cash, cash equivalents, and investments had a bank balance as summarized above at June 30, 2020, which was fully insured by depository insurance or secured with collateral held through PDPA. All investments evidenced by individual securities are registered in the name of the School.

Investment interest rate risk

The School has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates other than those contained in Colorado Revised Statutes. The School did not hold any investments as of June 30, 2020.

Investment credit risk

1. The School has no investment policy that limits its investment choices other than the limitation of state law as follows:
2. Direct obligations of the US government, its agencies, and instrumentalities to which the full faith and credit of the US government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged;
3. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;
4. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations;
5. County, municipal, or school tax supported debt obligations; bond or revenue anticipation notes; money; or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school;
6. Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association; and
7. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in 1, 2, 3, and 4, above.

Concentration of investment credit risk

The School places no limit on the amount it may invest in any one issuer. At June 30, 2020, the School had no concentration of credit risk.

The School would invest excess funds under the prudent investor rule. The criteria for selection of investments and their order of priority are: 1) safety; 2) liquidity; and 3) yield.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 3: CAPITAL ASSETS

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

	Balance 6/30/2019	Additions	Deletions	Balance 6/30/2020
<i>Governmental Activities:</i>				
Capital Assets not being depreciated				
Land	\$ -	\$ 715,000	\$ -	\$ 715,000
Construction in Progress	-	21,539	-	21,539
Total Capital Assets not being depreciated	-	736,539	-	736,539
Capital Assets being depreciated				
Building	-	3,628,063	-	3,628,063
Equipment	9,999	17,290	-	27,289
Total capital assets being depreciated	9,999	3,645,353	-	3,655,352
Less accumulated depreciation for:				
Building	-	(15,117)	-	(15,117)
Equipment	(1,000)	(1,144)	-	(2,144)
Total accumulated depreciation	(1,000)	(16,261)	-	(17,261)
Total capital assets being depreciated, net	8,999	3,629,092	-	3,638,091
Total Capital Assets	\$ 8,999	\$ 4,365,631	\$ -	\$ 4,374,630

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

Instructional Program	\$ 15,261
Transportation	1,000
Total Depreciation Expense	\$ 16,261

NOTE 4: PAYCHECK PROTECTION PROGRAM LOAN

2020 Paycheck Protection Program Loan

A loan payable, dated May 5, 2020, was entered into between First Southwest Bank and the School which matures on May 5, 2022. The Bank issued \$154,149 to the School and funds from the loan may only be used for payroll costs, mortgage interest, rent, and utility costs incurred over the 24 week period after the loan was made. Under the terms of the Paycheck Protection Program, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The unforgiven portion will have payments that are due monthly in the amount of \$9,555, which includes interest at a rate of 1.0%. Contractual payments were scheduled to begin December 5, 2020. However, funds were expended for allowable costs during the year ended June 30, 2021 and the loan was forgiven in February 2021. Therefore, the loan has been recognized into income in FY 2020.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 5: OUTSTANDING DEBT OBLIGATIONS

Long-term debt activity for the year ended June 30, 2020 was as follows:

	Balance 06/30/2019	Advances	Payments	Balance 06/30/2020	Current Portion
Governmental Activities					
United States Department of Agriculture Community Facilities Direct Loan	\$ -	\$ 2,900,000	\$ (3,625)	\$ 2,896,375	\$ 44,065

Note Payable

The Pagosa Peak Open School Building Corporation (the Corporation) entered into a \$2,900,000 loan agreement with the United States Department of Agriculture (USDA) at 2.375% interest rate, for the purchase of land and building and related building improvements incurred by the Corporation. The Corporation has pledged gross income and revenue to be derived from the operation of the facility to pay the principal and interest payments. Regular principal and interest payments began May 2020. The building and land are included in capital assets at a cost of \$4,343,063 and accumulated depreciation of \$15,117.

The annual debt service for the note is as follows:

	Principal	Interest	Total
2021	\$ 44,065	\$ 68,311	\$ 112,376
2022	45,123	67,253	112,376
2023	46,207	66,169	112,376
2024	47,315	65,061	112,376
2025	48,456	63,920	112,376
2026-2030	260,284	301,604	561,888
2031-2035	293,061	268,819	561,880
2036-2040	329,974	231,907	561,881
2041-2045	371,543	188,560	560,103
2046-2050	418,337	143,544	561,881
2051-2055	471,025	90,857	561,882
2056-2060	520,985	31,525	552,510
	<u>\$ 2,896,375</u>	<u>\$ 1,587,530</u>	<u>\$ 4,483,905</u>

NOTE 6: DEFICIT NET POSITION

The Governmental Activities has a net position of \$518,409, and an unrestricted net position deficit of \$(992,846) primarily due to adding the PERA and OPEB net pension liabilities and related deferred inflows and deferred outflows of resources of \$1,405,930 further described in Notes 9 and 11. As the School has no control over pension and other retirement benefits or contribution rates, we expect this deficit net position to continue going forward.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 7: SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES AND LEGAL COMPLIANCE

Claims and Judgments

The School participates in state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School is required to reimburse the grantor government. As of June 30, 2020, the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the School.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment (Amendment 1) to the State Constitution which limits state and local government tax powers and imposes spending limitations.

The School is subject to the Tabor Amendment. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and assessed valuation. Revenue received in excess of the limitations may be required to be refunded, unless authorized through ballot measure to retain the revenue. The Tabor Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment.

The Tabor Amendment requires the School to establish a reserve for emergencies. At June 30, 2020, the School's reserve of \$33,000 was recorded as a restricted fund balance in the General Fund.

Mill Levy Override

Archuleta School District passed a mill levy override vote in November of 2018 for which the District began receiving funds in calendar year 2019. The School received \$91,617 worth of these override funds and the remaining override funds unspent as of June 30, 2020 was \$0.

COVID -19

In March of 2020, the COVID-19 virus was declared a global pandemic. Business continuity could be severely impacted for months or more, as significant and unprecedented measures to mitigate the consequences of the pandemic are undertaken. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 to provide, among other things, funding for education. The School received a \$154,149 loan through Paycheck Protection Program (PPP) which was funded through the CARES Act. This funding is to be used to aid in covering payroll costs that could not be otherwise covered as a result of the loss of regular income from COVID-19. In February 2021 the School received confirmation that the PPP loan has been forgiven in full. The School has also received an additional \$183,958 in COVID Relief Funds (CRF) in fiscal year 2021. This funding source is to address the impact COVID-19 has had and continues to have on elementary and secondary schools. There are specific allowable uses for the funds. The funds cannot be used to supplement reductions to per pupil funding that has resulted from the downturn in the economy due to COVID-19. No adjustments have been made to these financial statements as the potential impact is unknown at this time.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 8: RISK MANAGEMENT

The School is exposed to various risks of loss related to: torts; theft of; damage to; destruction of assets; injuries to employees; and natural disasters. The School funds its outside insurance purchases, deductibles, and uninsured losses through the General Fund. The School carries commercial insurance for all other risks of loss, including errors and omissions and property. Settled claims resulting from these risks have not exceeded commercial coverage.

NOTE 9: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. Eligible employees of the School 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.

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.

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 in 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 of the DPS benefit structure employment 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

PAGOSA PEAK OPEN SCHOOL
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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.

Reserve (AIR) for the SCHDTF. 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 specific 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, the School 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%
Total Employer Contribution Rate to the SCHDTF	19.38%

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, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes. For Fiscal Year 2020, the portion of the direct distribution allocated to the School was \$13,557.

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, Judicial, and DPS Divisions, 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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$119,097 for the year ended June 30, 2020.

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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 School's proportion of the net pension liability was based on the School's 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, the School reported a liability of \$0 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 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 with the School were as follows:

School's proportionate share of the net position liability	\$ 1,411,165
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School	<u>178,988</u>
Total	<u><u>\$ 1,590,153</u></u>

At December 31, 2019, the School's proportion was 0.00945 percent, which was an increase of 0.0031 percent from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, the School recognized pension expense of \$0 and revenue of \$0 for support from the State as a nonemployer contributing entity. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 76,909	\$ -
Changes of assumption or other inputs	40,287	640,091
Net difference between projected and actual earnings on pension plan investments	-	167,167
Changes in proportion and differences between contributions recognized and proportionate share of contributions	679,025	19,157
Contributions subsequent to the measurement date	62,493	-
Total	<u><u>\$ 858,714</u></u>	<u><u>\$ 826,415</u></u>

\$62,493 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:

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Year Ended June 30,		
2021	\$	(22,207)
2022		(57,066)
2023		105,943
2024		(56,864)
2025		-
Thereafter		-

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%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increase , including wage inflation	3.50-9.70%
Long-term investment rate of return, net of pension plan investment expenses , including price inflation	7.25%
Discount rate	7.25%
Post retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic) ¹	1.25% percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve (AIR)

¹ 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.

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

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

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

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

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

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

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- Employee contributions were assumed to be made at the current 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 will provide an annual direct distribution of \$225 million, which commenced 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.
- 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.

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.

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Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 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	\$ 1,871,507	\$ 1,411,165	\$ 1,024,668

Pension plan fiduciary net position- Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report (CAFR) which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 10: DEFINED CONTRIBUTION PENSION PLAN

Voluntary Investment Program

Plan Description

Employees of the School that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, and Section 1402 of the C.R.S., as amended. The School does not contribute to the plan. Employees are immediately vested in their own contributions, employer contributions, if any, and investment earnings. For the year ended June 30, 2020 program members did not make any contributions to the plan.

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS

General Information about the OPEB Plan

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

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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.

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 are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

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 on behalf of benefit recipients not covered by Medicare Part A.

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$6,268 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, the School reported a liability of \$69,365 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. The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

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At December 31, 2019, the School's proportion was 0.0062 percent, which was an increase of 0.0021 from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020 the School recognized OPEB expense of \$11,413. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 230	\$ 11,656
Changes of assumption or other inputs	575	-
Net difference between projected and actual earnings on pension plan investments	-	1,158
Changes in proportion and differences between contributions recognized and proportionate share of contributions	51,020	-
Contributions subsequent to the measurement date	3,290	-
Total	<u>\$ 55,115</u>	<u>\$ 12,814</u>

\$3,290 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2021	\$ 10,862
2022	10,862
2023	11,197
2024	3,612
2025	2,340
Thereafter	138

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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%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increase , including wage inflation	3.50% in the aggregate
Long-term investment rate of return , net of OPEB plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates	
PERA benefit structure:	
Service - based premium subsidy	0.00%
PERA Care Medicare plans	5.60% in 2019, gradually Decreasing to 4.50% in 2029
Medicare Part A premiums	3.50 % for 2019, gradually increasing to 4.50% in 2029

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 December 31, 2018, 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 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.

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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.

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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 cost 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.

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

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Initial PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare Part A 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	\$ 67,717	\$ 69,365	\$ 71,269

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.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 78,431	\$ 69,365	\$ 61,612

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.

NOTE 12: FACILITY LEASE AGREEMENT

During FY2019, the School leased facilities for the main school space, a kindergarten class, a gym/kitchen, and a call center. Rental expense for the year ended June 30, 2020 was approximately \$112,880. The leases were terminated during FY2020 with the last payment in April 2020.

On May 1, 2020, the Pagosa Peak Open School Building Corporation, a component unit, purchased the facilities used by the School. Rental expense for the year ended June 30, 2020 was approximately \$26,000.

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Future minimum rental commitments for the building operating lease as of June 30, are as follows:

Year Ended June 30,	
2021	\$ 156,000
2022	156,000
2023	156,000
2024	156,000
2025	156,000
2026-2030	780,000
2031-2035	780,000
2036-2040	780,000
2041-2045	780,000
2046-2050	780,000
2051-2055	780,000
2056-2060	780,000
	<u>\$ 6,240,000</u>

NOTE 13: RELATED PARTY TRANSACTION

During FY 2020 the Pagosa Peak Open School Building Corporation (the Corporation) purchased land and a building from MW Asset Management, Inc. A Pagosa Peak Open School Board Member is the President and majority shareholder of MW Asset and Management, Inc. In addition, the Board Member donated \$1.0 mil to the Corporation for this purchase.

PAGOSA PEAK OPEN SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the basic financial statements, a budgetary comparison schedule is required for the General Fund and, if applicable, each of the School's major special revenue funds. In addition, pension plan and OPEB contributions and the School's proportionate share of the net pension and OPEB liabilities are required to supplement the basic financial statements.

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2020

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 66,030	\$ 66,030	\$ 130,249	\$ 64,219
State Sources	-	-	52,238	52,238
Other Sources	1,046,247	999,260	1,031,637	32,377
TOTAL REVENUES	<u>1,112,277</u>	<u>1,065,290</u>	<u>1,214,124</u>	<u>148,834</u>
EXPENDITURES				
Current Expenditures				
Instructional Program	498,005	451,018	482,507	(31,489)
Student Support Services	513	513	15	498
Instructional Staff Support Services	5,100	5,100	8,265	(3,165)
General Administration Support Services	37,393	37,393	54,941	(17,548)
School Administration Support Services	226,236	226,236	235,945	(9,709)
Business Support Services	72,702	72,702	67,611	5,091
Operations and Maintenance of Plant Services	199,214	199,214	168,489	30,725
Transportation	8,500	8,500	-	8,500
Central Support Services	18,574	18,574	25,714	(7,140)
Reserves	46,040	46,040	-	46,040
TOTAL EXPENDITURES	<u>1,112,277</u>	<u>1,065,290</u>	<u>1,043,487</u>	<u>21,803</u>
Change in Fund Balance	-	-	170,637	170,637
FUND BALANCE, Beginning of Year	<u>-</u>	<u>-</u>	<u>136,881</u>	<u>136,881</u>
FUND BALANCE, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,518</u>	<u>\$ 307,518</u>

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
DESIGNATED GRANTS FUND
For the Year Ended June 30, 2020

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 60,000	\$ 124,475	\$ 131,822	\$ 7,347
State Sources	-	78,100	63,799	(14,301)
Federal Sources	36,272	36,272	20,007	(16,265)
TOTAL REVENUES	<u>96,272</u>	<u>238,847</u>	<u>215,628</u>	<u>(23,219)</u>
EXPENDITURES				
Current Expenditures				
Instructional Program	37,674	158,249	174,904	(16,655)
Instructional Staff Support Services	-	-	5,000	(5,000)
General Administration Support Services	-	-	1,335	(1,335)
School Administration Support Services	36,080	58,080	-	58,080
Business Support Services	1,220	1,220	34,100	(32,880)
Operations and Maintenance of Plant Services	21,298	21,298	-	21,298
Food Services	-	-	289	(289)
TOTAL EXPENDITURES	<u>96,272</u>	<u>238,847</u>	<u>215,628</u>	<u>23,219</u>
Change in Fund Balance	-	-	-	-
FUND BALANCE, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PERA SCHDTF PENSION PLAN
For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
School's proportion of the net pension liability	0.0094456867%	0.0063180524%	0.0064921324%
School's proportionate share of the net pension liability (asset)	\$ 1,411,165	\$ 1,118,741	\$ 2,099,325
State's proportionate share of the net pension liability (asset) associated with the School	<u>178,988</u>	<u>134,572</u>	<u>-</u>
Total	<u>\$ 1,590,153</u>	<u>\$ 1,253,313</u>	<u>\$ 2,099,325</u>
School's covered payroll	\$ 482,149	\$ 348,182	\$ 299,474
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	292.68%	321.31%	701.00%
Plan fiduciary net position as a percentage of the total pension liability	64.52%	57.01%	43.96%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the School presents information for those years for which information is available.

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
PERA SCHDTF PENSION PLAN
For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 119,097	\$ 87,446	\$ 58,233
Contributions in relation to the contractually required contribution	<u>(119,097)</u>	<u>(87,446)</u>	<u>(58,233)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	614,538	457,113	312,575
Contributions as a percentage of covered payroll	19.38%	19.13%	18.63%

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the School presents information for those years for which information is available.

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
PERA HEALTHCARE TRUST FUND
For the Years Ended June 30,

	2020	2019	2018
School's proportion of the net OPEB liability	0.0061712947%	0.0041067568%	0.0036888063%
School's proportionate share of the net OPEB liability (asset)	\$ 69,365	\$ 55,874	\$ 47,940
School's covered payroll	\$ 482,149	\$ 348,182	\$ 299,474
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	14.39%	16.05%	16.01%
Plan fiduciary net position as a percentage of the total OPEB liability	24.49%	17.03%	17.53%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled the School presents information for those years for which information is available.

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF SCHOOL'S CONTRIBUTIONS
PERA HEALTHCARE TRUST FUND
For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 6,268	\$ 4,663	\$ 3,188
Contributions in relation to the contractually required contribution	<u>(6,268)</u>	<u>(4,663)</u>	<u>(3,188)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 614,538	\$ 457,113	\$ 312,575
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%

**This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled the School presents information for those years for which information is available.

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
CHANGES IN BENEFIT TERMS AND ACTUARIAL ASSUMPTIONS
For the Year Ended June 30, 2020

NOTE 1 NET PENSION LIABILITY

Changes in assumptions or other inputs effective for the December 31st measurement period for the following years ended:

- 2019* The post-retirement benefit increases to the PERA benefit structure for those hired prior to 1/1/07 was changed from 0% through 2019 and 1.5% compounded annually thereafter, to 1.25%.
- 2018* The assumed investment rate of return of 7.25% was used as the discount rate, rather than using the blended rate of 4.78%
- 2017* The discount rate was lowered from 5.26% to 4.78%.
- 2016*
- The price inflation assumption was lowered from 2.80% to 2.40%.
 - The long-term expected rate of return assumption was lowered from 7.50% to 7.25% per year.
 - The wage inflation assumption was lowered from 3.90% to 3.50%.
 - The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for actively working people, RP-2014 Healthy Annuitant Mortality Table projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
 - The discount rate was lowered from 7.50% to 5.26%.
- 2015* There were no changes in assumptions or other inputs this measurement period compared to the prior year.

NOTE 2 OTHER POSTEMPLOYMENT BENEFITS LIABILITY

Changes in assumptions or other inputs effective for the December 31st measurement period for the following years ended:

- 2019*
- The PERA benefit structure for PERACare Medicare plans was revised from 5.00 percent to 5.60 percent in 2019, gradually decreasing to 4.5 percent in 2019.
 - The PERA benefit structure for Medicare Part A premiums was revised from 3.25 percent for 2018. Gradually rising to 5.00 percent in 2025 to .5 percent in 2019, gradually increasing to 4.5 percent in 2029.
 - The monthly cost/premium assumed for the PERA benefit structure were revised from the following in 2018:

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
CHANGES IN BENEFIT TERMS AND ACTUARIAL ASSUMPTIONS
For the Year Ended June 30, 2020

	Cost for Members without Medicare Part A	Premiums for Members without Medicare part A
Medicare Plan		
Self-Funded Medicare Supplement Plans	\$ 736	\$ 367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
United Healthcare Medicare HMO	686	213

to the following in 2019:

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

The Medicare Part A premium was increased from \$422 to \$437 per month.

The initial expected value of Medicare Part A benefits were revised from the following in 2018:

	Cost for Members without Medicare Part A
Medicare Plan	
Self-Funded Medicare Supplement Plans	\$ 289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
United Healthcare Medicare HMO	400

to the following in 2019:

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

2018 There were no changes in assumptions or other inputs effective this measurement period compared to the prior year.

2017 The Medicare Part A premiums were raised from 3.00% to 3.25%, as well as the gradual percentage rose from 4.25% in 2023 to 5.00% in 2025.

PAGOSA PEAK OPEN SCHOOL
SUPPLEMENTARY INFORMATION

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
ACTIVITY FUND
For the Year Ended June 30, 2020

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 20,000	\$ 20,000	\$ 28,825	\$ 8,825
TOTAL REVENUES	<u>20,000</u>	<u>20,000</u>	<u>28,825</u>	<u>8,825</u>
EXPENDITURES				
Current Expenditures				
Instructional Program	<u>20,000</u>	<u>20,000</u>	<u>16,458</u>	<u>3,542</u>
TOTAL EXPENDITURES	<u>20,000</u>	<u>20,000</u>	<u>16,458</u>	<u>3,542</u>
Change in Fund Balance	-	-	12,367	12,367
FUND BALANCE, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,367</u>	<u>\$ 12,367</u>

PAGOSA PEAK OPEN SCHOOL

SINGLE AUDIT SECTION

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor and Number</i>	<i>Federal Expenditures (\$)</i>
<i>Community Facilities Loans and Grants Cluster</i>			
U.S. Department of Agriculture			
Community Facilities Loans and Grants Cluster	10.766		\$ 2,900,000
<i>Total Community Facilities Loans and Grants Cluster</i>			<u>2,900,000</u>
<i>Other Programs</i>			
U.S. Department of Housing and Urban Development			
		Colorado Department of Local Affairs and Town of Pagosa Springs	
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		<u>600,000</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>600,000</u>
<i>Total Other Programs</i>			<u>600,000</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 3,500,000</u></u>

PAGOSA PEAK OPEN SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Pagosa Peak Open School, under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Pagosa Peak Open School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pagosa Peak Open School.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pagosa Peak Open School did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance for the year ended June 30, 2020. In addition, the School did not pass-through federal funds to subrecipients.

NOTE 3: COMMUNITY FACILITIES LOANS AND GRANTS CLUSTER

The Community Facilities Loans and Grants Cluster is administered directly by Rural Development payable by the Pagosa Peak Open School Building Corporation. The outstanding loan balances at June 30, 2020 are included in the financial statements.



Wall,
Smith,
Bateman Inc.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Pagosa Peak Open School
Pagosa Springs, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pagosa Peak Open School (the School), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 26, 2021.

Internal Control Over Financial Reporting

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

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

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

Certified Public Accountants

3001 Adcock Circle PO Box 809 Alamosa, CO 81101 | 719-589-3619 | f 719-589-5492 | www.wsbcpa.com

Compliance and Other Matters

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

Purpose of this Report

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

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

February 26, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**



Wall,
Smith,
Bateman Inc.

To the Board of Education
Pagosa Peak Open School
Pagosa Springs, Colorado

Report on Compliance for Each Major Federal Program

We have audited Pagosa Peak Open School's (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Pagosa Peak Open School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Certified Public Accountants

3001 Adcock Circle PO Box 809 Alamosa, CO 81101 | 719-589-3619 | f 719-589-5492 | www.wsbcpa.com

Report on Internal Control over Compliance

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

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

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

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

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

February 26, 2021

PAGOSA PEAK OPEN SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

PAGOSA PEAK OPEN SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

Section II – Financial Statement Findings

Finding 2019-001: Internal Control Over Financial Reporting

Type of finding: Internal Control (significant deficiency)

Status: Implemented