

SOUTHWEST OPEN SCHOOL

Independent Accountants' Reports
and
Basic Financial Statements

June 30, 2020

SOUTHWEST OPEN SCHOOL

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June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Southwest Open School
Cortez, Colorado 81321

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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 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 fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, as of June 30, 2020, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Governmental Designated-Purpose Grant Fund 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, Schedule of School Pension Contributions, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of School OPEB Contributions and Schedule of the School's Proportionate Share of the Net OPEB Liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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 Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1 basic financial statements. The Capital Projects Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Capital Projects Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report 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 Capital Project Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Majors and Haley P.C.

Majors and Haley, P.C.
October 7, 2020

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Southwest Open School, Colorado ("School") financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2020. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The School's net position increased by \$565,358. This increase was largely the result of the School's share of PERA's pension benefit which totaled \$470,685.
- The School's total revenue was \$1,666,998, which is a decrease of \$28,291 from \$1,695,289 in the prior year.
 - General revenues (primarily the per pupil charter school allocation of \$991,299) accounted for \$1,065,539 in revenue, or 63.9% of all revenues. Program specific revenues in the form of charges for services and grants accounted for \$601,459, or the remaining 36.1%.
- The School incurred \$1,101,640 in expenses which is a decrease of \$170,434 from \$1,272,074 in the prior year.
- - The general revenues of \$1,065,539 were adequate to cover all of the \$1,101,640 in expenditures that were not offset by program specific revenues.
- The General Fund reported a \$108,298 increase in fund balance from \$725,258 in the prior year to \$833,556. This is a 14.9% increase.
 - General Fund revenues increased \$11,740 from \$1,210,429 in the prior year to \$1,222,169 for a .97% increase.
 - General Fund expenditures decreased \$155,562 from \$1,269,433 in the prior year to \$1,113,871 for a 12.3% decrease.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. Management's Discussion and Analysis is intended to serve as an introduction to the School's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

- School-wide financial statements.
- Fund financial statements.
- Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

School-wide Financial Statements

The School-wide financial statements are designed to provide the reader of the School's Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The school-wide financial statements include the Statement of Net Position and the Statement of Activities.

- The Statement of Net Position presents information about all of the School's assets, liabilities, and deferred inflows, with the difference reported as net position.
- The Statement of Activities presents information showing how the net position of the School changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all of the revenues and expenses are taken into account regardless of when cash is received or paid.

The School-wide financial statements are one way to measure the School's financial health, or financial position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the School's overall health, you need to consider additional non-financial factors such as changes in the School's student counts, and the condition of school facilities.

In the School-wide financial statements, the School's activities are presented in the following categories:

- **Governmental activities** – All of the School's basic services are included here, such as instruction, students, operations and maintenance, and administration. These activities are financed mainly through general revenues (per pupil charter school allocation from Montezuma County (Cortez) School District RE-1 and Public Land monies).

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by state law. However, the School establishes other funds to help it manage and control its finances to achieve certain results.

The School uses one type of fund:

- ***Governmental funds*** - All of the School's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the year ended June 30, 2020 the School's liabilities and deferred inflows were more than its assets and deferred outflows by \$1,224,913. The negative balance is due to the implementation of GASB 68 and 75, resulting in a net pension liability of \$1,766,632 and a net OPEB liability of \$86,865 representing its proportionate share of the state retirement system plan. Current year activities increased the net position by \$565,358. \$45,000 of the total net position is restricted for emergencies required to comply with the Tabor amendment.

The following table provides a summary of the Statement of Net Position for governmental activities as of June 30, 2020 and 2019.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

Table 1

Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	2020	2019
Assets		
Current assets	\$ 1,391,107	\$ 1,262,248
Capital assets, net of depreciation	742,764	691,816
Total assets	2,133,871	1,954,064
Deferred Outflows of Resources	868,777	1,480,116
Liabilities		
Current liabilities	188,452	98,784
Noncurrent liabilities	1,853,497	2,347,407
Total liabilities	2,041,949	2,446,191
Deferred Inflows of Resources	1,725,328	2,166,921
Net Position		
Invested in capital asset	742,764	691,816
Restricted	414,099	483,614
Unrestricted	(2,381,776)	(2,965,701)
Total net position	<u><u>\$(1,224,913)</u></u>	<u><u>\$(1,790,271)</u></u>

At the close of the most recent fiscal year current assets comprised \$1,391,107 (65.2%) of the School's assets. The investments in capital assets, less depreciation was \$742,764. There was an increase in total assets from \$1,954,064 in the prior year to \$2,133,871. Accrued wages and benefits represent 58% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other School employees' work nine or ten months of the year but are paid over a full twelve months. Current liabilities increased from \$98,784 in the prior year to \$188,452. Deferred outflows of resources net of deferred inflows of resources decreased \$441,493.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

The following table provides a summary of Changes Net Position for governmental activities in fiscal year 2020 and 2019.

Table 2
Comparative Summary of Changes in Net Position
For the Year Ending June 30

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Charges for services	\$ 108,052	
Operating grants and contributions	459,806	\$ 500,548
Capital grants and contributions	33,601	39,582
General revenues		
Per pupil charter school allocation	991,299	1,038,122
Impact Aid and Public lands	39,982	58,483
Other	34,258	58,554
Total revenues	<u>1,666,998</u>	<u>1,695,289</u>
Expenses		
Instruction	410,440	520,260
Students	402,876	414,347
Instructional staff	12,112	16,935
General administration	45,505	38,200
School administration	65,623	82,388
Business	26,710	37,372
Operations and maintenance of plant	68,001	93,152
Student transportation	5,262	10,730
Central	23,954	22,890
Facilities acquisition	3,739	531
Unallocated depreciation	37,418	35,269
Total expenses	<u>1,101,640</u>	<u>1,272,074</u>
Increase (decrease) in net position	<u>\$ 565,358</u>	<u>\$ 423,215</u>

SOUTHWEST OPEN SCHOOL

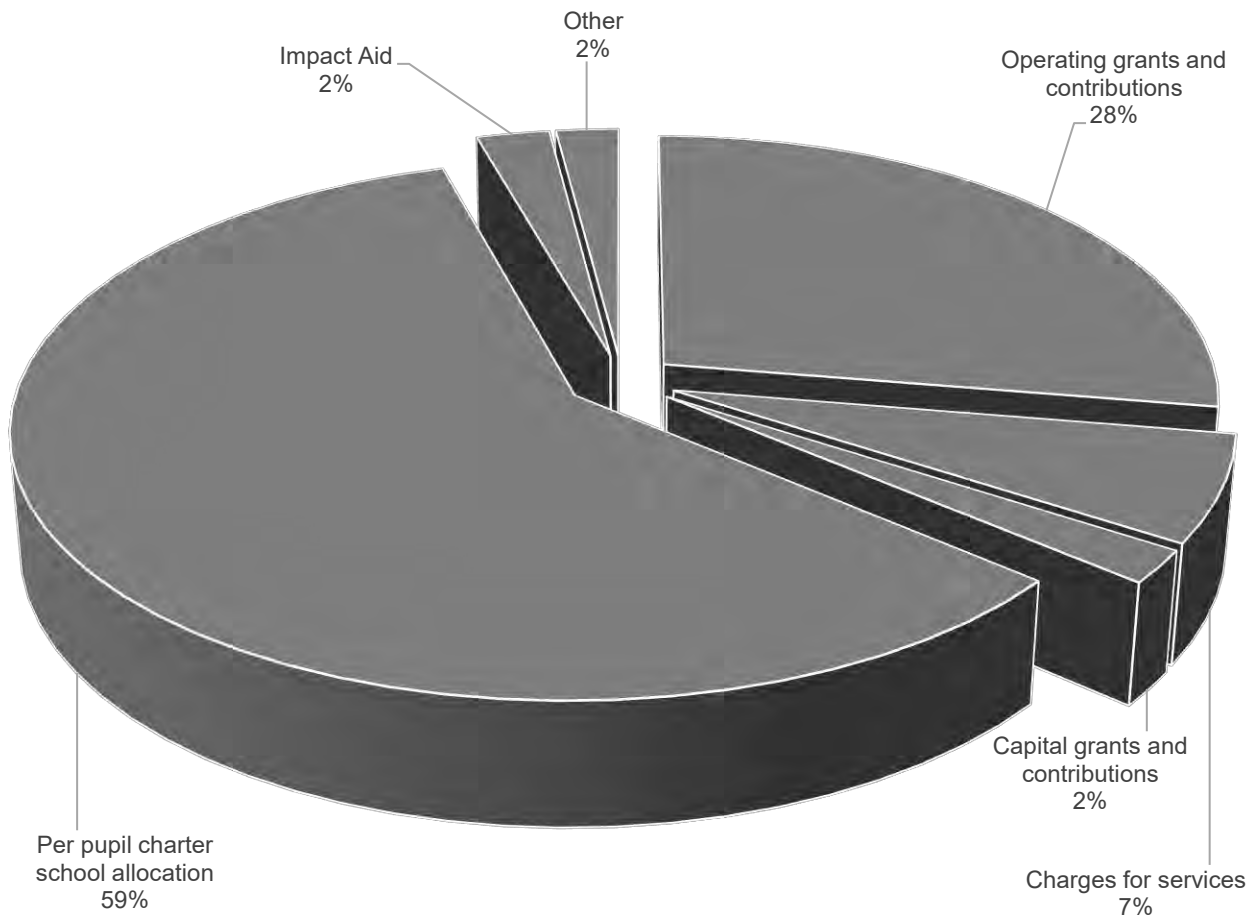
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

Per pupil charter school allocation accounted for most of the School's total revenue, contributing 59 percent. Another 30 percent came from state and federal grants and the remainder from miscellaneous sources. See Table 3.

The School's expenses are predominately related to instruction at 37.3 percent and students and instructional staff 37.7%, administration and business accounted for 12.5 percent and operations and maintenance of plant made up 6.2%. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2020

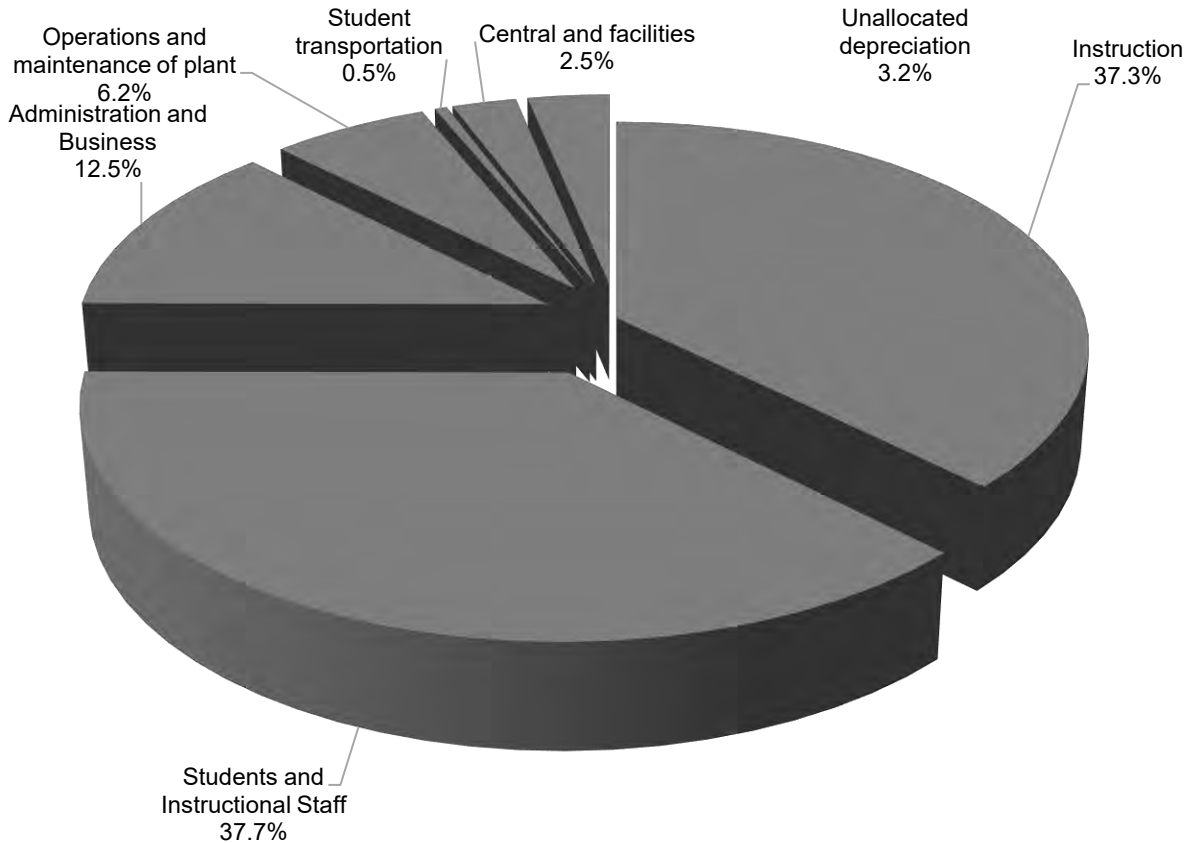


SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

Table 4
Expenses for Fiscal Year 2020



Governmental Activities

The primary source of operating revenue for the School comes from per pupil charter school allocation (\$991,299) from Montezuma County (Cortez) School District RE-1. The School received \$8,226.55 per funded student. In fiscal year 2020 the funded pupil count was 120.5. Funding for the charter school allocation comes from property taxes, specific ownership taxes and state equalization.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those service costs. Table 5 shows, for governmental activities, the total cost of services and net cost of services. That is, it identifies the cost of these services supported by the per pupil charter school allocation.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

Table 5
Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	\$ 410,440	\$ 520,260	\$ 320,588	\$ 421,689
Students	402,876	414,347	(75,130)	19,176
Instructional staff	12,112	16,935	12,112	16,935
General administration	45,505	38,200	45,505	38,200
School administration	65,623	82,388	65,623	82,388
Business	26,710	37,372	26,710	30,566
Operations and maintenance of plant	68,001	93,152	57,207	93,152
Student transportation	5,262	10,730	5,262	10,730
Central	23,954	22,890	23,954	22,890
Facilities acquisition	3,739	531	(19,068)	(39,051)
Unallocated depreciation	37,418	35,269	37,418	35,269
Total	<u>\$1,101,640</u>	<u>\$1,272,074</u>	<u>\$ 500,181</u>	<u>\$ 731,944</u>

- The cost of all governmental activities during the year was \$1,101,640.
- Federal and state government subsidized certain programs with grants and contributions (\$493,407).
- However, most of the School's costs (\$991,299) were financed by per pupil charter school allocations.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's major governmental funds include the General Fund, Governmental Designed-Purpose Grants Fund, and the Capital Projects Fund under GASB 34 reporting requirements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$1,691,057 and expenditures of \$1,651,866.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

General Fund Budgetary Highlights

The School's budget process is consistent with current Colorado statutes that require a proposed budget be presented to the Board of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through December 31st of each year. The most significant budgeted fund is the General Fund.

Over the course of the year, the School revised the annual operating budget by making an increase in appropriations.

- Increases in appropriations were primarily the result of additional information that was obtained after the time the original budget was prepared.
- Actual expenditures were \$824,548 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2020, the School has invested \$1,168,312 in buildings.

Table 6 shows capital assets for 2020 compared to 2019:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2020	2019
Buildings	\$1,168,312	\$1,079,946
Accumulated Depreciation	(425,548)	(388,130)
Total	<u>\$ 742,764</u>	<u>\$ 691,816</u>

Additional information on the School's capital assets can be found in Note 3 on page 26 of this report.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2020

FACTORS BEARING ON THE SCHOOL'S FUTURE

At the time these financial statements were prepared and audited, the School is not aware of any existing circumstances that could significantly affect its financial health in the future.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School's citizens, taxpayers, parents, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Southwest Open School; 401 North Dolores Road; Cortez, Colorado 81321.

SOUTHWEST OPEN SCHOOL
Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash	\$ 1,367,895
Grants receivable	23,212
Capital assets, net of depreciation	742,764
Total Assets	<u>2,133,871</u>
Deferred Outflows of Resources	
Pension items, net of accumulated amortization	402,541
OPEB items, net of accumulated amortization	5,952
Total Deferred Outflows of Resources	<u>408,493</u>
Liabilities	
Accrued salaries and benefits payable	108,420
Due to school district	7,652
Unearned grant revenue	72,380
Noncurrent liabilities	
Net pension liability	1,766,632
Net OPEB liability	86,865
Total Liabilities	<u>2,041,949</u>
Deferred Inflows of Resources	
Pension items, net of accumulated amortization	1,695,260
OPEB items, net of accumulated amortization	30,068
Total Deferred Inflows of Resources	<u>1,725,328</u>
Net Position	
Net investment in capital assets	742,764
Restricted	
TABOR	45,000
Capital projects	369,099
Unrestricted	(2,381,776)
Total Net Position	<u>\$ (1,224,913)</u>

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Activities

For the Year Ended June 30, 2020

					Net (Expenses) Revenue And Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instructional Program Services	\$ 410,440		\$ 89,852		\$ (320,588)
Support Program Services					
Students	402,876	\$ 108,052	369,954		75,130
Instructional staff	12,112				(12,112)
General administration	45,505				(45,505)
School administration	65,623				(65,623)
Business	26,710				(26,710)
Plant operation and maintenance	68,001			\$ 10,794	(57,207)
Student transportation	5,262				(5,262)
Central support services	23,954				(23,954)
Facilities acquisition	3,739			22,807	19,068
Depreciation excluding amounts directly allocated to programs	37,418				(37,418)
Total Governmental Activities	<u>1,101,640</u>	<u>108,052</u>	<u>459,806</u>	<u>33,601</u>	<u>(500,181)</u>
Total School	<u>\$ 1,101,640</u>	<u>\$ 108,052</u>	<u>\$ 459,806</u>	<u>\$ 33,601</u>	<u>(500,181)</u>
General Revenues					
Per pupil charter school allocation					991,299
Intergovernmental					
Impact Aid					39,982
Miscellaneous					34,258
Total General Revenues					<u>1,065,539</u>
Changes in Net Position					565,358
Net Position Beginning of the Year					(1,790,271)
Net Position End of the Year					<u><u>\$ (1,224,913)</u></u>

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Balance Sheet
Governmental Funds

June 30, 2020

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ 998,346		\$ 369,549	\$ 1,367,895
Due from other funds	(48,718)	\$ 49,168	(450)	-
Grants accounts receivable		23,212		23,212
Total Assets	<u>\$ 949,628</u>	<u>\$ 72,380</u>	<u>\$ 369,099</u>	<u>\$ 1,391,107</u>
Liabilities				
Due to school district	\$ 7,652			\$ 7,652
Unearned grant revenue		\$ 72,380		72,380
Accrued salaries and benefits payable	108,420			108,420
Total Liabilities	<u>116,072</u>	<u>72,380</u>		<u>188,452</u>
Fund Balances				
Restricted				
Tabor	45,000			45,000
Capital projects			\$ 369,099	369,099
Unrestricted				
Assigned for next year's expenditures	788,556			788,556
Total Fund Balances	<u>833,556</u>	<u>-</u>	<u>369,099</u>	<u>1,202,655</u>
Total Liabilities and Fund Balances	<u>\$ 949,628</u>	<u>\$ 72,380</u>	<u>\$ 369,099</u>	<u>\$ 1,391,107</u>

Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position

Total Fund Balance Governmental Funds \$ 1,202,655

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 as assets in governmental funds.

Capital assets	\$ 1,168,312	
Accumulated depreciation	(425,548)	
	<u>742,764</u>	

Long-term liabilities and related items, including net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources, are not due and payable in the current year, and, therefore, are not reported in governmental funds.

Net pension obligation	(1,766,632)	
Net OPEB obligation	(86,865)	
Deferred outflows of resources related to pensions - net	402,541	
Deferred outflows of resources related to OPEB - net	5,952	
Deferred inflows of resources related to pensions - net	(1,695,260)	
Deferred inflows of resources related to OPEB - net	(30,068)	
	<u>(3,170,332)</u>	

Total Net Position Governmental Activities \$ (1,224,913)

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2020

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Per pupil charter school allocation	\$ 991,299			\$ 991,299
Local and Intermediate sources	149,206	\$ 47,978	\$ 191	197,375
State sources	41,682	306,476	33,601	381,759
Federal sources	39,982	80,642		120,624
Total Revenues	<u>1,222,169</u>	<u>435,096</u>	<u>33,792</u>	<u>1,691,057</u>
Expenditures				
Instructional Program	673,211	69,620		742,831
Support Programs				
Students	37,400	365,476		402,876
Instructional staff	12,112			12,112
General administration	45,505			45,505
School administration	160,172			160,172
Business	74,779			74,779
Operation and maintenance of plant	81,476		10,794	92,270
Student transportation	5,262			5,262
Central	23,954			23,954
Facilities acquisition			92,105	92,105
Total Expenditures	<u>1,113,871</u>	<u>435,096</u>	<u>102,899</u>	<u>1,651,866</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	108,298	-	(69,107)	39,191
Fund Balances beginning of the year	725,258	-	438,206	1,163,464
Fund Balances end of the year	<u>\$ 833,556</u>	<u>\$ -</u>	<u>\$ 369,099</u>	<u>\$ 1,202,655</u>

The accompanying notes are an integral part of this statement

SOUTHWEST 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 Governmental Funds	\$	39,191
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Depreciation expense	\$	(37,418)	
Capital outlay		88,366	
			50,948

Governmental funds expenditures related to pensions and OPEB obligations are measured by the amount of financial resources used (essentially, the amounts actually paid to the pension plan), whereas in the Statement of Activities, they are measured on the full accrual basis. This amount represents the change in net pension liability, net OPEB liability, pension and OPEB related deferred outflows and inflows of resources.

Pension contributions	135,055	
Cost of pension benefits earned net of employee contributions	311,571	
Support from the State of Colorado	24,059	
OPEB contributions	7,108	
Cost of OPEB benefits earned net of employee contributions	(2,574)	
		475,219

Change in Net Position of Governmental Activities	\$	565,358
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The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund

For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues				
Local and Intermediate sources				
Per-pupil charter school allocation	\$ 1,081,854	\$ 979,724	\$ 991,299	\$ 11,575
Public Lands	993	4,720	4,720	-
Other		144,487	144,486	(1)
Total local sources	<u>1,082,847</u>	<u>1,128,931</u>	<u>1,140,505</u>	<u>11,574</u>
State sources				
Grants	14,214	44,248	41,682	(2,566)
Total state sources	<u>14,214</u>	<u>44,248</u>	<u>41,682</u>	<u>(2,566)</u>
Federal sources				
Impact Aid	27,600	39,982	39,982	-
Grants	3,104			-
Total federal sources	<u>30,704</u>	<u>39,982</u>	<u>39,982</u>	<u>-</u>
Total revenues	<u>1,127,765</u>	<u>1,213,161</u>	<u>1,222,169</u>	<u>9,008</u>
Expenditures				
Instructional Program	710,752	742,509	673,211	69,298
Students	26,972	167,639	37,400	130,239
Instructional staff	9,380	10,980	12,112	(1,132)
General administration	54,579	41,040	45,505	(4,465)
School administration	168,857	170,878	160,172	10,706
Business	73,242	75,318	74,779	539
Operation and maintenance of plant	97,564	97,373	81,476	15,897
Student transportation	8,521	6,157	5,262	895
Central	31,123	31,531	23,954	7,577
Appropriated reserves	573,009	594,994		594,994
Total expenditures	<u>1,753,999</u>	<u>1,938,419</u>	<u>1,113,871</u>	<u>824,548</u>
Excess of revenues over (under) expenditures	<u>(626,234)</u>	<u>(725,258)</u>	<u>108,298</u>	<u>833,556</u>
Fund Balances beginning of the year	626,234	725,258	725,258	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 833,556</u>	<u>\$ 833,556</u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOLSchedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Governmental Designated-Purpose Grants FundFor the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Grants	\$ 40,000	\$ 50,777	\$ 47,978	\$ (2,799)
State sources				
Grants	325,119	326,119	306,476	(19,643)
Federal sources				
Grants	64,959	165,214	80,642	(84,572)
Total Revenues	<u>430,078</u>	<u>542,110</u>	<u>435,096</u>	<u>(107,014)</u>
Expenditures				
Instructional Program	64,959	156,991	69,620	87,371
Students	365,119	385,119	365,476	19,643
Total Expenditures	<u>430,078</u>	<u>542,110</u>	<u>435,096</u>	<u>107,014</u>
Excess revenues over (under) expenditures	-	-	-	-
Fund Balances beginning of the year	-	-	-	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

1. Summary of Significant Accounting Policies

The financial statements of Southwest Open School ("School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements of Interpretations).

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

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

The School is a component unit of the Montezuma County (Cortez) School District RE-1 ("District"). The School's charter was granted by the District and the majority of the School's funding is provided by the District.

Government-wide and Fund Financial Statements –The government-wide financial statements (the statement of net position and the statement of activities) display information about the School as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

incurred, regardless of the timing of the related cash flow. On an accrual bases, grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the school considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

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

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the School is consistent with legal and managerial requirements. The School reports the following major governmental funds:

General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil funding from the School.

Governmental Designated-Purpose Grants Fund maintains a separate accounting for programs funded by local, state and federal grants.

Capital Projects Fund is used to account for the accumulation of resources and expenditure of resources for capital improvements within the School.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments include investments with original maturities of three months or less. Investments are reported at fair value.

Due to/from the School District – Amounts that are due to/from the District are normal transactions that are paid in the next three months or less.

Short-term Interfund Receivable/Payables – During the course of operations, transactions occur between individual funds for goods provided or services rendered. These are paid in the next three months or less.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

Grants Receivable – State and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Grants receivable are recorded when expenditures are made, and the grant monies have not yet been received.

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value of the date donated. The School maintained a capitalization threshold of \$25,000 for major outlays for building and improvements. The School does not possess any infrastructure.

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

Depreciation of exhaustible capital assets is charged as an expense against operations in the statement of activities, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives; building and improvements 20-50 years and equipment 7 years.

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

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

Accrued Salaries and Benefits Payable – represent the liability to teachers and certain other employees who earn their salaries over the nine-month school year but are paid over a twelve-month period. Changes in the accrual are reflected in expenditures or expense on the applicable fund's statement of revenue, expenditures and changes in fund balance.

Compensated Absences – The School's policy allows employees to accumulated sick leave. Upon termination of employment, no financial compensation is paid for unused sick day. Therefore, no liability for accumulated sick leave is reported in the financial statements.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

Federal and State Administered Grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

Fund Equity – The fund balance of the governmental funds is reported in classifications based on the extent to which the School is bound to honor constraints for the specific purposes on which amount in the fund can be spent as follows:

- Nonspendable fund balance represents assets that cannot be spent either because of their form or legally or contractually must be maintained intact.
- Restricted fund balance reflects resources that are subject to externally enforceable legal limitations.
- Committed fund balance is the portion that is limited to specific purposes determined by a formal action of the Board.
- Assigned fund balance displays the School's intended use of these resources.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balances consist of required TABOR reserves of \$45,000 and \$369,099 for capital projects

When determining categories of fund balance, it is assumed that the type of expenditure determines the primary use of the fund balance. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. Once the commitment or assignment is satisfied unassigned resource are used.

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

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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

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

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.

Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Budgets and Budgetary Accounting – The School is required by Colorado Statutes to adopt annual budgets for all funds. Each budget is prepared on the same basis (GAAP basis) as that used for accounting purposes.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the Superintendent's staff submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.

The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain comments.

Prior to June 30, the budget is legally adopted through passage of a resolution by the Board of Education. However, the Board can review and change the adopted budget through December 31.

Formal budgetary integration is employed as a management control device during the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed by the School as an extension of formal budgetary

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

integration. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

2. Cash and Investments

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the School's deposits might not be recovered. However, there is no custodial risk for public deposits because they are collateralized under the Colorado Public Deposit Protection Act (PDPA). The PDPA specifies eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local governmental depositors as a group, with a market value at least 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

At June 30, 2020, the carrying amount of the School's cash was \$1,367,895 in demand deposits. The School's bank balances of \$1,392,125 at June 30, 2020 and during the year ended June 30, 2020 were entirely covered by FDIC insurance or pledged collateral held by the School's agent banks in the name of governmental accounts of which the School is a part.

3. Capital Assets – Capital asset activity for the fiscal year ended June 30, 2020 follows:

	Capital Assets <u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	Capital Assets <u>June 30, 2020</u>
Governmental Activities				
Capital Assets, being depreciated				
Buildings	\$ 1,079,946	\$ 88,366		\$ 1,168,312
Less Accumulated Depreciation				
Buildings	(388,130)	(37,418)		(425,548)
Governmental Activities Capital Assets, net	<u>\$ 691,816</u>	<u>\$ 50,948</u>	<u>\$ -</u>	<u>\$ 742,764</u>

4. Defined Benefit 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

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

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 for 2019 is 0.00 percent for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive an annual increase of 1.25 percent unless adjusted by the automatic 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 receive the lesser of an annual increase of 1.25 percent or the average Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year no to exceed 10 percent of PERA's Annual Increase (AIR) for the SCHDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

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 and 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, the School and the state are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq* and C.R.S. § 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. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the 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 the 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.

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

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

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 \$135,055 for the year ended June 30, 2020.

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 School contributions to the SCHDTF for the calendar year 2019 relative to the total contributions of the participating employers and the State as a nonemployer contributing entity.

On June 30, 2020, the School reported a liability of \$1,766,632 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:

District's proportionate share of the net pension liability	\$ 1,766,632
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the District	224,075
Total	<u><u>\$ 1,990,707</u></u>

On December 31, 2019, the Schools proportion was .0118250188 percent, which was a decrease of .0008012759 percent from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, the School recognized pension expense of \$(470,685) and revenue of \$16,972 for the support from the State as a nonemployer contributing entity. On June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 96,282	
Changes in assumptions or other inputs	50,435	\$ 801,328
Net difference between projected and actual earnings on pension plan investments	188,466	397,741
Changes in proportion and differences between contributions recognized and proportionate share of contributions		496,191
Contributions subsequent to the measurement date	67,358	
Total	<u>\$ 402,541</u>	<u>\$ 1,695,260</u>

\$67,358 reported as deferred outflows 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:

Year ended June 30,	
2021	\$ (745,608)
2022	(520,732)
2023	(22,547)
2024	(71,190)
Total	<u>\$ (1,360,077)</u>

Actuarial Assumptions – The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry Age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension	

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic) ¹	1.25 percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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 reflect 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 changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used the December 31, 2018, valuation was 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

SOUTHWEST OPEN SCHOOL

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June 30, 2020

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:

	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	<u>100.00%</u>	

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

Discount rate. The discount rate used to measure the total pension liability was 7.25 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%.

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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%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars) commencing July 1, 2018, that is proportioned between the State, 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 used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. 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

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plan investments was applied to all periods of projected benefit payments to determine that total pension liability. The discount determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Schools 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 position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1 % Decrease (6.25%)	Current Discount Rate (7.25%)	1 % Increase (8.25)
Proportionate share of the net pension liability	\$ 2,342,932	\$ 1,766,632	\$ 1,282,778

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

5. Other Post-Employment Benefits

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

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The

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basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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

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

PERA Benefit Structure

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

contributions. Employer contributions recognized by the HCTF from School were \$19,132 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 \$86,865 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 proportion of the net OPEB liability was based on School contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

At December 31, 2019, the School proportion was .0077282084 percent, which was a decrease of .0004789528 percent from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020 the School recognized OPEB expense of \$(4,534). 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	\$ 286	\$ 14,597
Changes in assumptions or other inputs	721	
Net difference between projected and actual earnings on pension plan investments	1,400	2,848
Changes in proportion and differences between contributions recognized and proportionate share of contributions		12,623
Contributions subsequent to the measurement date	3,545	
Total	<u>\$ 5,952</u>	<u>\$ 30,068</u>

\$3,545 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

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NOTES TO THE FINANCIAL STATEMENTS

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resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2021	\$ (5,916)
2022	(5,916)
2023	(5,497)
2024	(6,048)
2025	(4,047)
2026	(237)
Total	<u><u>\$ (27,661)</u></u>

Actuarial assumptions. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.60 percent in 2019, gradually decreasing to 4.50 percent in
2029	
Medicare Part A premiums	3.50 percent in 2019, gradually increasing to 4.50 percent in
2029	
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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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. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

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

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

The 2019 Medicare Part A premium is \$437 per month.

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

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

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

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

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June 30, 2020

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2018, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2019	5.60%	3.50%
2020	8.60%	3.50%
2021	7.30%	3.50%
2022	6.00%	3.75%
2023	5.70%	3.75%
2024	5.50%	3.75%
2025	5.30%	4.00%
2026	5.10%	4.00%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

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

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

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

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2019 plan year.
- The morbidity assumptions were updated to reflect the assumed standard aging factors.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

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June 30, 2020

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%
None U.S. Equity - Developed	18.55%	5.20%
None 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 settling the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%

Sensitivity of the School 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:

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June 30, 2020

	<u>1% Decrease in Trend Rates</u>	<u>Current Trend Rates</u>	<u>1% Increase in Trend Rates</u>
Initial PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB liability	\$ 84,801	\$ 86,865	\$ 89,249

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, 2018, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

Sensitivity of the School 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:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 99,218	\$ 86,865	\$ 77,155

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

6. 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, Section 1402 of the C.R.S., as amended. The School has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2020, program members contributed \$4,653 to the Voluntary Investment Program.

7. Accrued Salaries – Certified instructors of the School are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling \$108,420, is reflected as an accrued expense at June 30.

8. Fund Balance Restrictions and Assignments – Restricted indicates that a portion of the fund balance can only be spent for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors. Assigned indicates amounts that are designated for a specific purpose by the Board of Education but are not spendable until appropriated. The School uses the following restrictions and assignments:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

Restricted

TABOR – indicates that a portion of the fund balance has been segregated for expenditures for declared emergencies only. Fund balance restricted for emergencies consists of \$45,000 in the General Fund.

Capital projects- indicates that the fund balance of \$369,099 in the Capital Projects Fund has been restricted for major capital purchases.

Assigned

Assigned for future expenditures – indicates anticipated fund balance available for appropriation in the next budget year. Fund balances assigned for future expenditures consist of \$ 788,556 in the General Fund.

- 9. Risk Management** – The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School is a member of the Colorado School Schools Self-Insurance Pool (The Pool). The Pool was formed in 1981 to provide 93-member school Schools and related educational facilities with defined property and liability coverage through joint self-insurance and excess insurance. The School pays an annual premium for its general insurance coverage. The Pool is self-sustaining through member premiums and obtains excess insurance to limit per occurrence exposure to \$250,000.

The School continues to carry commercial insurance for all other risks of loss including worker's compensation and employee health and accident insurance. There have been no settled claims that have exceeded insurance coverage in any of the past three fiscal years. There have been no significant decreases in insurance coverage from the prior year.

In addition, the School participates in the Montezuma County (Cortez) School District RE-1 Self Insurance Fund to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of \$120,000, with a maximum aggregate benefit of \$1,000,000.

- 10. Tax, Spending, and Debt Limitations** – Colorado Voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The people of the School voted to authorize the spending of all monies in existing funds and to collect, retain, and expend the full revenue, including state grants and taxes, generated during fiscal year 1998 and for each subsequent year regardless of any limitation contained in Article X, Section 20, of the Colorado Constitution. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with all other requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

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June 30, 2020

- 11. Commitments and Contingent Liabilities** — There were no commitments or contingent liabilities at June 30.

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Required Supplementary Information

June 30, 2020

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

Such information includes:

Pension Schedules

Schedule of School's Pension Contributions

Schedule of School's Proportionate Share of the Net Pension Liability

OPEB Schedules

Schedule of School's OPEB Contributions

Schedule of the School's Proportionate Share of the Net OPEB Liability

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Schedule of School's Pension Contributions

June 30, 2020
Last 10 Years*

	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 135,055	\$ 129,151	\$ 138,036	\$ 136,911	\$ 125,215	\$ 135,600
Contributions in relation to the statutory required contribution	135,055	129,151	138,036	136,911	125,215	135,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 696,869	\$ 675,111	\$ 731,206	\$ 745,123	\$ 703,211	\$ 802,153
Contributions as a percentage of covered payroll	19.38%	19.13%	18.88%	18.37%	17.81%	16.90%

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

Notes to Required Supplementary Information

See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of the School's Proportionate Share of the Net Pension Liability

June 30, 2020
Last 10 Years*

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
School's proportion of the net pension liability	0.01182502%	0.01262629%	0.01589155%	0.01781632%	0.01624122%	0.01732241%
School's share of the net pension liability	\$ 1,766,632	\$ 2,235,745	\$ 5,138,764	\$ 5,304,608	\$ 2,483,979	\$ 2,347,768
School's share of State's share of the net pension liability as nonemployer contributing entity	\$ 224,075	\$ 305,707				
	<u>\$1,990,707</u>	<u>\$ 2,541,452</u>				
School's covered payroll	\$ 694,888	\$ 691,636	\$ 733,058	\$ 799,753	\$ 707,552	\$ 725,688
School's proportionate share of the net pension liability as a percentage of its covered payroll	286.48%	323.25%	701.00%	663.28%	351.07%	323.52%
Plan fiduciary net position as a percentage of the total pension liability	64.52%	57.01%	43.96%	43.13%	59.20%	64.07%

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

Notes to Required Supplementary Information

See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of School's OPEB Contributions

June 30, 2020
Last 10 Years*

	2020	2019	2018	2017
Statutorily required contributions	\$ 7,108	\$ 6,886	\$ 7,458	\$ 7,600
Contributions in relation to the statutory required contribution	7,108	6,886	7,458	7,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 696,869	\$ 675,111	\$ 731,206	\$ 745,123
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%	1.02%

* Information is not available for years prior to 2017.

Notes to Required Supplementary Information

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Schedule of the School's Proportionate Share of the Net OPEB Liability

June 30, 2020
Last 10 Years*

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
School's proportion of the Net OPEB Liability	0.00772821%	0.00820716%	0.00902951%	0.01012700%
School's share of the Net OPEB Liability	\$ 86,865	\$ 111,662	\$ 117,348	\$ 131,300
School's covered payroll	\$ 694,888	\$ 691,636	\$ 733,058	\$ 745,124
School's proportionate share of the net pension liability as a percentage of its covered payroll	12.50%	16.14%	16.01%	17.62%
Plan fiduciary net position as a percentage of the total pension liability	24.49%	17.03%	17.53%	16.72%

* Information is not available for years prior to 2016.

Notes to Required Supplementary Information

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

SOUTHWEST OPEN SCHOOL
Other Supplementary Information

June 30, 2020

Other supplementary information includes financial statements and schedules not required by the GASB, or a part of the basic financial statements, but are presented for purposes of additional analysis.

These statements and schedules include:

Budgetary Comparison Schedules
Capital Projects Fund

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Projects Fund

For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues				
Local sources				
Earnings of Investments			\$ 191	\$ 191
Total local sources			<u>191</u>	<u>191</u>
State sources				
Grants	\$ 36,668	\$ 36,668	33,601	(3,067)
Total Revenues	<u>36,668</u>	<u>36,668</u>	<u>33,792</u>	<u>(2,876)</u>
Expenditures				
Support Programs				
Operation and maintenance of plant			10,794	(10,794)
Facilities acquisition	109,453	109,453	92,105	17,348
Appropriated reserves	365,421	365,421		365,421
Total Expenditures	<u>474,874</u>	<u>474,874</u>	<u>102,899</u>	<u>371,975</u>
Excess of revenues over (under) expenditures	(438,206)	(438,206)	(69,107)	369,099
Fund Balances beginning of the year	438,206	438,206	438,206	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 369,099</u>	<u>\$ 369,099</u>



Revenues, Expenditures, & Fund Balance by Location and Fund

Location (900- 969): 930

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001 - 0999 Total Expenditures & Other Uses	6700 - 6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	0	0	0	0
18 Risk Mgmt Sub-Fund of General Fund	408	16,100	16,508	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	408	16,100	16,508	0
11 Charter School Fund	724,850	1,206,069	1,097,363	833,556
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	435,096	435,096	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	438,206	33,792	102,899	369,099
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
Totals	1,163,464	1,691,057	1,651,866	1,202,655
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	0	0	0	0

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your priorperiod adjustment is added into both your ending and beginning fund balances on this report.