

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)

Financial Statements

June 30, 2021



Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Table of Contents
June 30, 2021

Independent Auditors' Report	1
Management's Discussion and Analysis	i
Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Position	3
Statement of Activities	4
<i>Governmental Fund</i>	
Balance Sheet	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	7
<i>Notes to Financial Statements</i>	8
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability and Contributions.....	37
Schedule of Proportionate Share of the Net OPEB Liability and Contributions.....	39
Budgetary Comparison Schedule – General Fund.....	40
<i>Notes to Required Supplementary Information</i>	41



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Business Advisors

Independent Auditors' Report

Governing Council
Challenge to Excellence Charter School
Parker, Colorado

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Challenge to Excellence Charter School, a component unit of Douglas County School District RE.1, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Challenge to Excellence Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Challenge to Excellence Charter School as of June 30, 2021, and the respective changes in financial position and cash flows, where applicable, 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 and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hick & Company, PC

Greenwood Village, Colorado
October 25, 2021



Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

As management of Challenge to Excellence Charter School (C2E or the School), we offer readers of Challenge to Excellence Charter School's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2021 is the nineteenth year of operations for C2E. As of June 30, 2021, net position increased by \$2,000,382 to \$(6,090,428). Challenge to Excellence Charter School's governmental funds reported an ending fund balance of \$3,337,054, an increase of \$162,038 from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was \$4,251,683.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year-end).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's authorizer (Douglas County School District). The governmental activities of C2E include instruction and supporting services.

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

The School maintains two governmental funds and adopts an annually appropriated budget for the General fund. A budgetary comparison schedule is included to demonstrate that spending did not exceed the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2021, C2E's net position was \$(6,090,428). This position includes a net pension liability in the amount of \$6,901,863, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. The School's net position also includes a net OPEB (Other Post-Employment Benefits) liability in the amount of \$250,909, representing the School's proportionate share of the defined benefit Health Care Trust Fund, administered by PERA. The School reports this net OPEB liability, and associated deferred inflows and outflows of resources, as requirement by GASB 75. More information regarding the net pension and OPEB liabilities may be found in the notes to the financial statements.

Of the School's total net position, \$(1,391,910) is invested in capital assets, \$160,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment, and \$14,272 is restricted for debt service.

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

Challenge to Excellence Charter School's Net Position

	2020-2021	2019-2020
ASSETS		
Cash and Investments	\$ 3,921,985	\$ 3,552,272
Restricted Cash and Investments	29,259	29,245
Accounts Receivable	2,665	1,611
Prepaid Expenses	10,929	1,282
Capital Assets, Not Being Depreciated	1,027,634	1,010,419
Capital Assets, Net of Accumulated Depreciation	<u>2,784,007</u>	<u>2,948,817</u>
TOTAL ASSETS	<u>7,776,479</u>	<u>7,543,646</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	1,958,358	831,946
OPEB, Net of Accumulated Amortization	35,348	41,970
Loss on Debt Refunding, Net of Accumulated Amortization	<u>146,208</u>	<u>168,701</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,139,914</u>	<u>1,042,617</u>
LIABILITIES		
Accounts Payable	404,768	11,279
Accrued Liabilities	2,779	1,781
Accrued Salaries and Benefits	220,237	195,127
Unearned Revenue	-	201,207
Accrued Interest Payable	14,987	15,461
Noncurrent Liabilities		
Due Within One Year	180,476	163,350
Due in More Than One Year	5,023,075	5,167,867
Net Pension Liability	6,901,863	6,312,442
Net OPEB Liability	<u>250,909</u>	<u>310,388</u>
TOTAL LIABILITIES	<u>12,999,094</u>	<u>12,378,902</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	2,915,573	4,240,832
OPEB, Net of Accumulated Amortization	<u>92,154</u>	<u>57,339</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,007,727</u>	<u>4,298,171</u>
NET POSITION		
Investment in Capital Assets	(1,391,910)	(1,203,280)
Restricted for Debt Service	14,272	13,784
Restricted for Emergencies	160,000	160,000
Unrestricted	<u>(4,872,790)</u>	<u>(7,061,314)</u>
TOTAL NET POSITION	<u>\$ (6,090,428)</u>	<u>\$ (8,090,810)</u>

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

Challenge to Excellence Charter School's Change in Net Position

	2020-2021	2019-2020
REVENUES		
Per Pupil Revenue	\$ 4,251,683	\$ 4,114,208
District Mill Levy	643,002	585,032
Capital Construction	164,594	139,567
Charges for Services	156,889	265,346
Operating Grants and Contributions	299,317	49,542
Investment Income	5,446	41,433
Other	<u>352,262</u>	<u>63,675</u>
 TOTAL REVENUE	 <u>5,873,193</u>	 <u>5,258,803</u>
 EXPENSES		
Instruction	1,691,242	2,375,331
Supporting Services	1,962,816	1,634,593
Interest on Long-Term Debt	<u>218,753</u>	<u>422,724</u>
 TOTAL EXPENSES	 <u>3,872,811</u>	 <u>4,432,648</u>
 CHANGE IN NET POSITION	 2,000,382	 826,155
 NET POSITION, Beginning	 <u>(8,090,810)</u>	 <u>(8,916,965)</u>
 NET POSITION, Ending	 <u>\$ (6,090,428)</u>	 <u>\$ (8,090,810)</u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$3,307,795, an increase of \$162,024 from the prior year.

The School also maintains a governmental fund to record the activity of the C2E Building Corporation (the Corporation). The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for the School, and to provide facilities, equipment and other physical plant and related support to the School. As of the end of the current fiscal year, the Corporation reported an ending fund balance of \$29,259, an increase of \$14 from the prior year.

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2021

General Fund Budgetary Highlights

C2E recognized \$104,792 more revenue than expected and spent \$804,374 less than planned, when compared to the final budget. There were budget amendments during the year, which reflected changes in revenues and expenditures. Overall, revenue and expenses were fine-tuned to account for changes to student enrollment and available resources.

Capital Assets & Long-Term Debt

The School has invested in capital assets for the School's educational facility, facility improvements, construction in progress for additional improvements, land, land improvements, and equipment. Depreciation expenses for capital assets are booked under the Supporting Services program of the School's operations. More information regarding capital assets may be found in Note 3 to the financial statements.

The School has long-term debt in the form of a loan acquired at the close of 2016-2017 to refinance 2007 Charter School Revenue Refunding Bonds, the proceeds of which were used to refund Series 2004 Bonds, which were used by the Corporation to construct the School's building. The school also has a lease agreement for a copier machine that qualifies as long-term debt. More information regarding long-term debt may be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Challenge to Excellence Charter School is student enrollment. Enrollment for the 2020-2021 school year was 544.00 funded students. Enrollment projected for 2021-2022 is 530.00 funded students. This factor was considered when preparing C2E's budget for 2021-2022.

Requests for Information

This financial report is designed to provide a general overview of Challenge to Excellence Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School:

Challenge to Excellence Charter School
16995 E. Carlson Drive
Parker, CO 80134

Basic Financial Statements

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash and Investments	\$ 3,921,985
Restricted Cash and Investments	29,259
Accounts Receivable	2,665
Prepaid Expenses	10,929
Capital Assets, <i>Not Being Depreciated</i>	1,027,634
Capital Assets, <i>Net of Accumulated Depreciation</i>	<u>2,784,007</u>
Total Assets	<u>7,776,479</u>
Deferred Outflows of Resources	
Pensions, <i>Net of Accumulated Amortization</i>	1,958,358
OPEB, <i>Net of Accumulated Amortization</i>	35,348
Loss on Debt Refunding, <i>Net of Accumulated Amortization</i>	<u>146,208</u>
Total Deferred Outflows of Resources	<u>2,139,914</u>
Liabilities	
Accounts Payable	404,768
Accrued Liabilities	2,779
Accrued Salaries and Benefits	220,237
Accrued Interest Payable	14,987
Noncurrent Liabilities	
Due Within One Year	180,476
Due in More Than One Year	5,023,075
Net Pension Liability	6,901,863
Net OPEB Liability	<u>250,909</u>
Total Liabilities	<u>12,999,094</u>
Deferred Inflows of Resources	
Pensions, <i>Net of Accumulated Amortization</i>	2,915,573
OPEB, <i>Net of Accumulated Amortization</i>	<u>92,154</u>
Total Deferred Inflows of Resources	<u>3,007,727</u>
Net Position	
Net Investment in Capital Assets	(1,391,910)
Restricted for:	
Debt Service	14,272
Emergencies	160,000
Unrestricted	<u>(4,872,790)</u>
Total Net Position	<u>\$ (6,090,428)</u>

See Notes to the Financial Statements.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Statement of Activities
 For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary Government				
<i>Governmental Activities</i>				
Instruction	\$ 1,691,242	\$ 153,020	\$ 299,317	\$ (1,238,905)
Supporting Services	1,962,816	3,869	-	(1,958,947)
Interest on Long-Term Debt	218,753	-	-	(218,753)
Total Governmental Activities	<u>\$ 3,872,811</u>	<u>\$ 156,889</u>	<u>\$ 299,317</u>	<u>(3,416,605)</u>
General Revenues				
				4,251,683
Per Pupil Revenue				643,002
District Mill Levy				164,594
Capital Construction				5,446
Investment Income				352,262
Other				<u>5,416,987</u>
Total General Revenues and Transfers				<u>5,416,987</u>
Change in Net Position				2,000,382
Net Position, Beginning of year				<u>(8,090,810)</u>
Net Position, End of year				<u>\$ (6,090,428)</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Balance Sheet
Governmental Fund
June 30, 2021

	General	Building	Total
Assets			
Cash and Investments	\$ 3,921,985	\$ -	\$ 3,921,985
Restricted Cash and Investments	-	29,259	29,259
Accounts Receivable	2,665	-	2,665
Prepaid Expenses	10,929	-	10,929
 Total Assets	 \$ 3,935,579	 \$ 29,259	 \$ 3,964,838
Liabilities and Fund Balance			
<i>Liabilities</i>			
Accounts Payable	\$ 404,768	\$ -	\$ 404,768
Accrued Liabilities	2,779	-	2,779
Accrued Salaries and Benefits	220,237	-	220,237
Total Liabilities	627,784	-	627,784
 <i>Fund Balance</i>			
Nonspendable	10,929	-	10,929
Restricted for:			
Emergencies	160,000	-	160,000
Debt Service	-	29,259	29,259
Unrestricted, Unassigned	3,136,866	-	3,136,866
 Total Fund Balance	 3,307,795	 29,259	 3,337,054
 Total Liabilities and Fund Balance	 \$ 3,935,579	 \$ 29,259	 \$ 3,964,838

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

Total Fund Balance of the Governmental Fund	\$ 3,337,054
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	3,811,641
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds.	
Accrued interest payable	(14,987)
Long-Term Debt	(5,057,343)
Net pension liability	(6,901,863)
Pension-related deferred outflows of resources	1,958,358
Pension-related deferred inflows of resources	(2,915,573)
Net OPEB liability	(250,909)
OPEB-related deferred outflows of resources	35,348
OPEB-related deferred inflows of resources	(92,154)
 Total Net Position of Governmental Activities	 \$ (6,090,428)

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2021

	General	Building	Total
Revenues			
<i>Local Sources</i>			
Per Pupil Revenue	\$ 4,251,683	\$ -	\$ 4,251,683
District Mill Levy	643,002	-	643,002
Tuition	3,869	-	3,869
Student Fees and Activities	153,020	-	153,020
Investment Income	5,446	-	5,446
Other	3,432	348,830	352,262
<i>State Sources</i>			
Capital Construction	164,594	-	164,594
Grants	68,038	-	68,038
<i>Federal Sources</i>			
Grants	231,279	-	231,279
 Total Revenues	 5,524,363	 348,830	 5,873,193
 Expenditures			
Instruction	3,046,845	-	3,046,845
Supporting Services	2,315,494	-	2,315,494
Debt Service			
Principal	-	163,350	163,350
Interest	-	185,466	185,466
 Total Expenditures	 5,362,339	 348,816	 5,711,155
 Net Change in Fund Balance	 162,024	 14	 162,038
 Fund Balance, Beginning of year	 3,145,771	 29,245	 3,175,016
 Fund Balance, End of year	 \$ 3,307,795	 \$ 29,259	 \$ 3,337,054

Challenge to Excellence Charter School

(A Component Unit of Douglas County School District RE.1)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities For the Year Ended June 30, 2021

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

Net Change in Fund Balance of the Governmental Fund	\$ 162,038
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(230,212)
Amortization Expense	(11,268)
Capital outlays	46,933
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	
Lease Payments	11,268
Loan Payments	163,350
Amortization of Debt Refunding	(22,493)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following.	
Accrued Interest Payable	474
Net pension liability	(589,421)
Pension-related deferred outflows of resources	1,126,412
Pension-related deferred inflows of resources	1,325,259
Net OPEB liability	59,479
OPEB-related deferred outflows of resources	(6,622)
OPEB-related deferred inflows of resources	(34,815)
Change in Net Position of Governmental Activities	<u>\$ 2,000,382</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 1: Summary of Significant Accounting Policies

The Challenge to Excellence Charter School (the School) was organized in 2002 pursuant to the Colorado Charter Schools Act to form and operate a charter school within Douglas County School District (the District). The School is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code.

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

Reporting Entity

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

The School includes the C2E Building Corporation (the Corporation) within its reporting entity. The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for, and to make same available for use by, the School and to otherwise provide facilities, equipment and other physical plant and related support to the School. The Corporation is blended into the School's financial statements as a Special Revenue Fund. Separate audited financial statements are not available for the Corporation.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The School reports the following major funds:

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

Special Revenue Fund - This fund is used to account for the financial activities of the Corporation, primarily related to capital assets and the related debt service.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Position/Fund Balance

Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include investments with original maturities of three months or less.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	20 - 30 years
Equipment	5 - 15 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Compensated Absences - Employees are allowed to use sick and personal leave, which is not available to carry over from year to year. Certified and classified staff are reimbursed \$100 and \$50 per day, respectively, for unused sick and personal leave at the end of each fiscal year. Therefore, no liability is reported in the financial statements for these compensated absences.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts, and accounting losses resulting from debt refunding's are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

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

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 (FNP), and additions to and deductions from the FNP 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. Employer contributions are recognized when the compensation is payable to the employees. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Most of these changes were in effect as of 2021.

Postemployment Benefits Other Than Pensions (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 (FNP), and additions to and deductions from the FNP of the HCTF's 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.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Governing Council is authorized to establish a fund balance commitment through passage of a resolution and may assign fund balances to a specific purpose through an informal action.

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

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Risk Management

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

Implementation of New Accounting Pronouncements

For the year ended June 30, 2021, the School Implemented GASB Statement No. 87 - *Leases*. This statement records lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

For the year ended June 30, 2021, the School Implemented GASB Statement No. 80 - *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. This statement changes Building Corporations of the School from a Proprietary to a Special Revenue fund and will be a blended component unit of the School.

Prior Period Adjustments

The Building Corporation is part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School's financial statements as a Special Revenue Fund. Separate financial statements are not available.

The financial impact for the changes in fund effects on the financial statement opening balances of the Special Revenue Fund are summarized as follows:

Building Corporation Fund	As Originally Stated Balance 6/30/2020	Capital Assets Adjustments	Loan Payable Adjustments	Interest Payable Adjustments	As Restated Balance 6/30/2020
Balance Sheet					
Assets					
Restricted Cash and Investments	\$ 29,245	\$ -	\$ -	\$ -	\$ 29,245
Capital Assets	3,836,828	(3,836,828)	-	-	-
Loss on Debt Refunding	168,701	-	(168,701)	-	-
Liabilities					
Interest Payable	(15,461)	-	-	15,461	-
Loan Payable	(5,331,217)	-	5,331,217	-	-
Fund Balance	\$ (1,311,904)	\$ (3,836,828)	\$ 5,162,516	\$ 15,461	\$ 29,245

Subsequent Events

The School has evaluated subsequent events through October 25, 2021, the date the financial statements were available to be issued.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 2: Deposits and Investments

A summary of cash and investments at June 30, 2021, follows:

Deposits	\$	685,127
Investments		3,266,117
 Total	 \$	 <u><u>3,951,244</u></u>

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

Cash and Investments	\$	3,921,985
Restricted Cash and Investments		29,259
 Total	 \$	 <u><u>3,951,244</u></u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2021, the School had bank deposits of \$437,003 collateralized with securities held by the financial institution's agents but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk. The School's investment policy follows State statutes.

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 2: Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk - State statutes generally limit the maturity of investment securities to five years from the date of purchase unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations.

At June 30, 2021, the School had \$29,259 invested in the Federated Treasury Obligations Fund, a money market fund rated AAAM by Standard and Poor's. The fund invests in short-term U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities.

Local Government Investment Pool - At June 30, 2021, the School had \$3,236,858 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7. Colotrust is reported at the net asset value per share, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2021, investments of \$29,259 have been restricted by the School's loan agreement for debt service.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2021, is summarized below.

Governmental Activities	Balance 06/30/20	Additions	Deletions	Balance 06/30/21
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 1,010,419	\$ -	\$ -	\$ 1,010,419
Construction in Process	-	17,215	-	17,215
Total Capital Assets, Being Depreciated	1,010,419	17,215	-	1,027,634
<i>Capital Assets, Being Depreciated</i>				
Buildings	4,754,070	-	-	4,754,070
Building Improvements	960,908	-	-	960,908
Land Improvements	91,964	-	-	91,964
Equipment	262,097	29,718	-	291,815
Leased Equipment	56,342	-	-	56,342
Total Capital Assets, Being Depreciated	6,125,381	29,718	-	6,155,099
<i>Less Accumulated Depreciation</i>				
Buildings	(2,476,549)	(158,469)	-	(2,635,018)
Building Improvements	(412,020)	(50,794)	-	(462,814)
Land Improvements	(45,978)	(9,196)	-	(55,174)
Equipment	(185,675)	(11,753)	-	(197,428)
<i>Less Accumulated Amortization for</i>				
Leased Equipment	(9,390)	(11,268)	-	(20,658)
Total Accumulated Depreciation and Amortization	(3,129,612)	(241,480)	-	(3,371,092)
Total Capital Assets, Being Depreciated, Net	2,995,769	(211,762)	-	2,784,007
Governmental Activities Capital Assets, Net	\$ 4,006,188	\$ (194,547)	\$ -	\$ 3,811,641

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

Note 4: Long-Term Debt

Following is a summary of long-term debt transactions for the year ended June 30, 2021:

Governmental Activities	Balance 06/30/20	Additions	Payments	Balance 06/30/21	Due Within One Year
2017 Building Loan	\$ 5,331,217	\$ -	\$ (163,350)	\$ 5,167,867	\$ 169,208
2019 Copier Lease	46,952	-	(11,268)	35,684	11,268
Total	\$ 5,378,169	\$ -	\$ (174,618)	\$ 5,203,551	\$ 180,476

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 4: Long-Term Debt (Continued)

On June 30, 2018, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,775,756 Charter School Refunding Revenue Bonds, Series 2017. Bond proceeds were used to refund the Charter School Revenue Refunding Bonds, Series 2007. Proceeds of the refunded bonds were used to advance refund CECFA's outstanding Series 2004 Bonds, which were originally loaned to the School to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the School for using the facilities. The School is required to make monthly loan payments to the trustee, for payment of the bonds. Interest accrues on the outstanding balance of the bonds at 3.48% per annum. Principal and interest payments are due monthly beginning August 1, 2017, with a balloon payment of \$3,970,706 due at maturity on December 1, 2027.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 169,208	\$ 179,608	\$ 348,816
2023	175,276	173,540	348,816
2024	181,100	167,716	348,816
2025	188,057	160,759	348,816
2026	194,801	147,029	341,830
2027-2028	<u>4,259,425</u>	<u>218,041</u>	<u>4,477,466</u>
Total	<u>\$ 5,167,867</u>	<u>\$ 1,046,693</u>	<u>\$ 6,214,560</u>

The School has entered into lease agreements directly with the vendor to copier machine. Monthly payments are required by the lease agreement, with terms of five years. Future minimum leases payments to maturity are as follows:

<u>Year Ended June 30,</u>	
2022	\$ 11,268
2023	11,268
2024	11,268
2025	<u>1,880</u>
Total Minimum Lease Payments	35,684
Less: Interest Portion	<u>-</u>
Total	<u>\$ 35,684</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 5: Defined Benefit Pension Plan

General Information

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

Benefits Provided - 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 under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is 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:

- a) Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- b) 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 annualized into a monthly benefit based on life expectancy and other actuarial factors.

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

- a) Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- b) \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

General Information (Continued)

As of December 31, 2020, 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, eligible benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase of 1.25 percent unless adjusted by the automatic adjustment provision (AAP) pursuant to C.R.S. § 24-51-413. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

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

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

Contributions Provisions as of 2021 - Eligible employees, the School and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 10.00% of their PERA-includable salary during the period of July 01, 2020 through June 30, 2021. The School's contribution rate was 20.90% of covered salaries for July 01, 2020 through June 30, 2021. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-208(1)(f).

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. House Bill (HB) 20-1379 suspended the \$225 million (actual dollars) direct distribution payable on July 1, 2020 for the State's 2020-21 fiscal year.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

General Information (Continued)

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 \$480,575, for the year ended June 30, 2021.

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 at December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. Standard update procedures were used to roll forward the total pension liability to December 31, 2020. The School proportion of the net pension liability was based on the School contributions to the SCHDTF for the calendar year 2020 relative to the total contributions of participating employers and State as a nonemployer contributing entity.

Due to the aforementioned suspension of the July 1, 2020, direct distribution payment, the nonemployer contributing entity's proportion is zero percent. Pursuant to C.R.S. § 24-51-414, the direct distribution payment from the State of Colorado is to recommence annually starting on July 1, 2021. For purposes of GASB 68 paragraph 15, a circumstance exists in which a nonemployer contributing entity is legally responsible for making contributions to the SCHDTF and is considered to meet the definition of a special funding situation.

At June 30, 2021, the School reported a liability of \$6,901,863, for its proportionate share of the net pension liability. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the School were as follows:

School Proportionate share of net pension liability	\$ 6,901,863
The State's proportionate share of net pension liability as a nonemployer contributing entity associated with the School	-
Proportionate share of the net pension liability	\$ 6,901,863

At December 31, 2020, the School's proportion was 0.0456533340%, which was an increase of 0.0034007669% from its proportion measured at December 31, 2019.

For the year ended June 30, 2021, the School recognized pension benefit of \$1,138,289. There was no support from the State as a nonemployer contributing entity.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 379,224	\$ -
Changes of assumptions and other inputs	663,938	1,160,143
Net difference between projected and actual earnings on plan investments		1,519,256
Changes in proportion	636,018	236,174
Contributions subsequent to the measurement date	279,178	-
 Total	 \$ 1,958,358	 \$ 2,915,573

School contributions subsequent to the measurement date of \$279,178 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>			
2022		\$	(1,115,179)
2023			317,878
2024			(199,423)
2025			(239,669)
 Total		 \$	 (1,236,393)

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

Actuarial Assumptions - The actuarial valuation as of December 31, 2019, determined the total pension liability using the following actuarial assumptions and other inputs.

Actuarial cost method	Entry Age
Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.50%
Salary increases, including wage inflation	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Future post-employment benefit increases:	
Hired prior to 1/1/2007	1.25%
Hired after 12/31/2006	ad hoc

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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments, adjusted as follows:

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

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

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

Based on the 2020 experience analysis, dated October 28, 2020, for the period January 1, 2016, through December 31, 2019, revised economic and demographic assumptions were adopted by PERA's Board on November 20, 2020, and were effective as of December 31, 2020. The assumptions shown below were reflected in the roll forward calculation of the total pension liability from December 31, 2019, to December 31, 2020.

Actuarial cost method	Entry Age
Price inflation	2.3%
Real wage growth	0.7%
Wage inflation	3.0%
Salary increases, including wage inflation	3.4% - 11.0%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Future post-employment benefit increases:	
Hired prior to 1/1/2007	1.25%
Hired after 12/31/2006	Financed by AIR

Salary scale assumptions were revised to align with revised economic assumptions and to more closely reflect actual experience.

Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.

The pre-retirement mortality assumptions were based upon the PubT-2010 Employee Table with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions were based upon the PubT-2010 Healthy Retiree Table, adjusted as follows:

- Males: 112 percent of the rates prior to age 80 and 94 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- Females: 83 percent of the rates prior to age 80 and 106 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled beneficiary mortality assumptions were based upon the Pub-2010 Contingent Survivor Table, adjusted as follows:

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

- Males: 97 percent of the rates for all ages, with generational projection using scale MP-2019.
- Females: 105 percent of the rates for all ages, with generational projection using scale MP-2019.

Disabled mortality assumptions were based upon the PubNS-2010 Disabled Retiree Table using 99 percent of the rates for all ages with generational projection using scale MP-2019.

The mortality tables described above are generational mortality tables on a benefit-weighted basis.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four to five years for PERA. Recently this assumption has been reviewed more frequently. The most recent analyses were outlined in the Experience Study report dated October 28, 2020. As a result of the November 20, 2020, PERA Board meeting, the following economic assumptions were changed, effective December 31, 2020:

- Price inflation assumption decreased from 2.40 percent per year to 2.30 percent per year.
- Real rate of investment return assumption increased from 4.85 percent per year, net of investment expenses to 4.95 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.50 percent per year to 3.00 percent per year.

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

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

The PERA Board first adopted the 7.25 percent long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019, meeting, to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
	<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%. 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 3.00%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State, as a nonemployer contributing entity, will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded. HB 20-1379 suspended the \$225 million (actual dollars) direct distribution payable on July 1, 2020, for the State's 2020-21 fiscal year.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial FNP, 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 FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the SCHDTF's FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 5: Defined Benefit Pension Plan (Continued)

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 9,414,707	\$ 6,901,863	\$ 4,807,837

Pension Plan Fiduciary Net Position - Detailed information about the SCHDTF's FNP is available in PERA's Annual Report which can be obtained at www.copera.org/investments/pera-financial-reports.

Note 6: Postemployment Healthcare Benefits

General Information

Plan Description - Eligible employees of the School are provided with postemployment benefits other than pensions (OPEB) through the HCTF, a cost-sharing multiple-employer defined benefit OPEB plan administered by the Public Employees' Retirement Association of Colorado (PERA). The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS), 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. PERA issues a publicly available comprehensive annual financial report (Annual report) that can be obtained at www.copera.org/investments/pera-financial-reports.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

General Information (Continued)

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

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

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

PERA Benefit Structure - The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are over 65 years of age or who are under 65 years of age and entitled to Medicare. 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.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

General Information (Continued)

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

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

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

Contributions - Pursuant to Title 24, Article 51, Section 208(1)(f) of the CRS, as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the School Division are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School was \$24,657, for the year ended June 30, 2021.

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

At 2021, the School reported a liability of \$250,909 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured at December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2020.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2020, relative to the contributions of all participating employers to the HCTF. At December 31, 2020, the School's proportion was 0.0264052035%, which was a decrease of 0.0012094147% from its proportion measured at December 31, 2019.

For the year ended June 30, 2021, the School recognized OPEB expense of \$9,050. At June 30, 2021, 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
Differences between expected and actual experience	\$ 666	\$ 55,162
Changes of assumptions and other inputs	1,876	15,385
Net difference between projected and actual earnings on plan investments	-	10,252
Changes in proportion	18,409	11,355
Contributions subsequent to the measurement date	14,397	-
Total	\$ 35,348	\$ 92,154

School contributions subsequent to the measurement date of \$14,397 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ended June 30,</u>			
2022		\$	(15,205)
2023			(13,769)
2024			(17,075)
2025			(15,958)
2026			(8,619)
Thereafter			(577)
Total		\$	(71,203)

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

Actuarial Assumptions - The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry Age
Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates:	
PERA Benefit Structure	
Service-based premium subsidy	0.0%
PERACare Medicare plans	
8.1% in 2020, gradually decreasing to 4.5% in 2029	
Medicare Part A premiums:	
3.5% in 2020, gradually increasing to 4.5% in 2029	
DPS Benefit Structure	
Service-based premium subsidy	0.0%
PERACare Medicare plans	N/A
Medicare Part A premiums:	N/A

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A in the December 31, 2019, valuation, the following monthly costs/premiums (actual dollars) are assumed for 2020 for the PERA Benefit Structure:

- Medicare Advantage/Self-Insured Rx - Monthly Cost of \$558, Monthly Premium of \$227, Monthly Costs Adjusted to Age 65 of \$550.
- Kaiser Permanente Medicare Advantage HMO - Monthly Cost of \$621, Monthly Premium of \$232, Monthly Costs Adjusted to Age 65 of \$586.

The 2020 Medicare Part A premium is \$458 (actual dollars) per month.

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2019, 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.

Mortality assumptions used in the December 31, 2019, valuation 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 School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

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

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of the 2016 experience analysis for the period January 1, 2012, through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by PERA's Board during the November 18, 2016, Board meeting.

Based on the 2020 experience analysis, dated October 28, 2020, and November 4, 2020, for the period of January 1, 2016, through December 31, 2019, revised economic and demographic assumptions were adopted by PERA's Board on November 20, 2020, and were effective as of December 31, 2020. The assumptions shown below were reflected in the roll forward calculation of the total OPEB liability from December 31, 2019, to December 31, 2020.

Actuarial cost method	Entry Age
Price inflation	2.3%
Real wage growth	0.7%
Wage inflation	3.0%
Salary increases, including wage inflation	3.4% - 11.0%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%

The long-term rate of return, net of OPEB plan investment expenses, including price inflation and discount rate assumptions were 7.25 percent.

Rates of termination/withdrawal, retirement, and disability were revised to more closely reflect actual experience.

Mortality assumptions used in the roll forward calculations for the determination of the total pension liability for each of the Division Trust Funds as shown below were applied, as applicable, in the roll forward calculation for the HCTF, using a headcount-weighted basis.

The pre-retirement mortality assumptions for the School Division were based upon the PubT-2010 Employee Table with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for the School Division were based upon the PubT-2010 Healthy Retiree Table, adjusted as follows:

- Males: 112 percent of the rates prior to age 80 and 94 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- Females: 83 percent of the rates prior to age 80 and 106 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

Disabled mortality assumptions for Members other than State Troopers were based upon the PubNS-2010 Disabled Retiree Table using 99 percent of the rates for all ages with generational projection using scale MP-2019.

The mortality tables described above are generational mortality tables on a head-count weighted basis.

The following health care costs assumptions were updated and used in the roll forward calculation 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 2020 plan year.
- 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.

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by the Board's actuary, as discussed above.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four to five years for PERA. Recently this assumption has been reviewed more frequently. The most recent analyses were outlined in the Experience Study report dated October 28, 2020. As a result of the November 20, 2020, PERA Board meeting, the following economic assumptions were changed, effective December 31, 2020:

- Price inflation assumption decreased from 2.40 percent per year to 2.30 percent per year.
- Real rate of investment return assumption increased from 4.85 percent per year, net of investment expenses to 4.95 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.50 percent per year to 3.00 percent per year.

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

The PERA Board first adopted the 7.25 percent long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019, meeting, to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized, as presented previously (see Note 5).

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 nominal rate of return assumption of 7.25 percent.

Discount Rate - The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate 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, 2020, 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 3.00%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the HCTF's FNP was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% 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%.

Challenge to Excellence Charter School
 (A Component Unit of Douglas County School District RE.1)
 Notes to Financial Statements
 June 30, 2021

Note 6: Postemployment Healthcare Benefits (Continued)

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

Sensitivity of the School's proportionate share of 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%, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 287,421	\$ 250,909	\$ 219,712

Sensitivity of the School's proportionate share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability using the current healthcare cost trend rates, ranging from 2.5% to 9.1%, as well as if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability	\$ 244,424	\$ 250,909	\$ 258,458

OPEB Plan Fiduciary Net Position - Detailed information about the HCTF's fiduciary net position is available in PERA's Annual report which can be obtained at www.copera.org/investments/pera-financial-reports.

Note 7: Commitments and Contingencies

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2021, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2021

Note 7: Commitments and Contingencies (Continued)

TABOR Amendment

In November 1992, Colorado voters passed the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. As required by the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2021, the emergency reserve was reported as restricted fund balance in the General Fund, in the amount of \$160,000.

Note 8: Current Economic Conditions

During the year ended June 30, 2021, the United States of America and State of Colorado declared an emergency associated with the COVID-19 pandemic. Along with significant declines in financial markets, the public health emergency creates uncertain economic conditions. The School has adapted and made changes to operations due to potential impacts on health and safety. Should these conditions persist, the School could be negatively impacted.

Required Supplementary Information

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability and Contributions
 Public Employees' Retirement Association of Colorado
 School Division Trust Fund
 June 30, 2021

	12/31/20	12/31/19
Proportionate Share of the Net Pension Liability		
School's Proportion of the Net Pension Liability	0.0456533340%	0.0422525671%
School's Proportionate Share of the Net Pension Liability	\$ 6,901,863	\$ 6,312,442
School's Covered-Employee Payroll	\$ 2,441,813	\$ 2,482,992
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	283%	254%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67%	65%
	6/30/21	6/30/20
School Contributions		
Statutorily Required Contribution	\$ 480,575	\$ 480,483
Contributions in Relation to the Statutorily Required Contribution	(480,575)	(480,483)
Contribution Deficiency (Excess)	\$ -	\$ -
School's Covered-Employee Payroll	\$ 2,417,387	\$ 2,473,078
Contributions as a Percentage of Covered-Employee Payroll	19.88%	19.43%

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

(Continued)

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Contributions
Public Employees' Retirement Association of Colorado
School Division Trust Fund
June 30, 2021
(Continued)

	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
Proportionate Share of the Net Pension Liability					
School's Proportion of the Net Pension Liability	0.0399526875%	0.0456648566%	0.0443513783%	0.0435081376%	0.0427827980%
School's Proportionate Share of the Net Pension Liability	\$ 7,074,444	\$ 14,766,391	\$ 13,205,120	\$ 6,654,262	\$ 5,798,506
School's Covered-Employee Payroll	\$ 2,196,413	\$ 2,106,465	\$ 1,990,568	\$ 1,896,362	\$ 1,792,291
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	322%	701%	663%	351%	324%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57%	44%	43%	59%	63%
	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
School Contributions					
Statutorily Required Contribution	\$ 452,043	\$ 407,218	\$ 375,265	\$ 347,700	\$ 306,721
Contributions in Relation to the Statutorily Required Contribution	<u>(452,043)</u>	<u>(407,218)</u>	<u>(375,265)</u>	<u>(347,700)</u>	<u>(306,721)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 2,362,912	\$ 2,156,879	\$ 2,041,567	\$ 1,961,651	\$ 1,817,034
Contributions as a Percentage of Covered-Employee Payroll	19.13%	18.88%	18.38%	17.72%	16.88%

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
 Required Supplementary Information
 Schedule of Proportionate Share of the Net OPEB Liability and Contributions
 Public Employees' Retirement Association of Colorado
 Health Care Trust Fund
 June 30, 2021

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/18</u>	<u>12/31/17</u>
Proportionate Share of the Net OPEB Liability				
School's Proportion of the Net OPEB Liability	0.0264052035%	0.0276146182%	0.0259694641%	0.0259465832%
School's Proportionate Share of the Net OPEB Liability	\$ 250,909	\$ 310,388	\$ 353,325	\$ 337,202
School's Covered Payroll	\$ 2,441,813	\$ 2,482,992	\$ 2,196,413	\$ 2,198,431
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	10%	13%	16%	15%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	33%	24%	17%	18%
	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/19</u>	<u>6/30/18</u>
School Contributions				
Statutorily Required Contribution	\$ 24,657	\$ 25,225	\$ 24,102	\$ 22,000
Contributions in Relation to the Statutorily Required Contribution	<u>(24,657)</u>	<u>(25,225)</u>	<u>(24,102)</u>	<u>(22,000)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 2,417,387	\$ 2,473,078	\$ 2,362,912	\$ 2,245,739
Contributions as a Percentage of Covered Payroll	1.02%	1.02%	1.02%	0.98%

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

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
<i>Local Sources</i>				
Per Pupil Revenue	\$ 4,119,872	\$ 4,192,908	\$ 4,251,683	\$ 58,775
District Mill Levy	620,902	632,672	643,002	10,330
Tuition	19,610	9,500	3,869	(5,631)
Student Fees and Activities	155,000	120,000	153,020	33,020
Investment Income	17,500	12,600	5,446	(7,154)
Other	3,500	3,500	3,432	(68)
Total Local Sources	<u>4,936,384</u>	<u>4,971,180</u>	<u>5,060,452</u>	<u>89,272</u>
<i>State Sources</i>				
Capital Construction	113,183	115,328	164,594	49,266
Grants	117,300	126,884	68,038	(58,846)
Total State Sources	<u>230,483</u>	<u>242,212</u>	<u>232,632</u>	<u>(9,580)</u>
<i>Federal Sources</i>				
Grants	200,000	206,179	231,279	25,100
Total Federal Sources	<u>200,000</u>	<u>206,179</u>	<u>231,279</u>	<u>25,100</u>
Total Revenues	<u>5,366,867</u>	<u>5,419,571</u>	<u>5,524,363</u>	<u>104,792</u>
Expenditures				
Salaries	2,550,975	2,605,506	2,577,560	27,946
Employee Benefits	1,002,378	1,016,202	834,665	181,537
Purchased Professional Services	328,680	355,680	298,623	57,057
Purchased Property Services	1,081,662	1,129,274	791,863	337,411
Other Purchased Services	555,151	564,065	468,756	95,309
Supplies	232,617	241,742	193,343	48,399
Property	199,300	224,244	191,703	32,541
Other	30,000	30,000	5,826	24,174
Total Expenditures	<u>5,980,763</u>	<u>6,166,713</u>	<u>5,362,339</u>	<u>804,374</u>
Net Change in Fund Balance	(613,896)	(747,142)	162,024	909,166
Fund Balance, Beginning of year	<u>2,236,349</u>	<u>3,145,771</u>	<u>3,145,771</u>	<u>-</u>
Fund Balance, End of year	<u>\$ 1,622,453</u>	<u>\$ 2,398,629</u>	<u>\$ 3,307,795</u>	<u>\$ 909,166</u>

Challenge to Excellence Charter School
(A Component Unit of Douglas County School District RE.1)
Notes to Required Supplementary Information
June 30, 2021

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

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

Changes in Assumptions and Other Inputs

For the year ended 2021, the total pension liability was determined by an actuarial valuation as of December 31, 2019. The following revised economic and demographic assumptions were effective as of December 31, 2019.

- Investment rate of return assumption of 7.25% per year, compounded annually. This assumption did not change from the prior year.
- Price inflation assumption of 2.4% per year. This assumption did not change from the prior year.
- Real rate of investment return assumption of 4.85% per year, net of investment expenses. The rate reflected in the roll-forward calculation of the collective total pension liability to the measurement date was 7.25%. This assumption did not change from prior year.
- Wage inflation assumption of 3.5% per year. This assumption did not change from the prior year.
- Healthy and disabled mortality assumptions are based on the RP-20p14 Mortality Tables.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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

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

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