# STEM School Highlands Ranch and Academy

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

Financial Statements

**June 30, 2021**

HINKLE & COMPANY PC
Strategic Business Advisors

**STEM School Highlands Ranch and Academy**
*(A Component Unit of Douglas County School District RE.1)*
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June 30, 2021

HINKLE & COMPANY PC
Strategic Business Advisors

# Independent Auditors' Report

Board of Directors
STEM School Highlands Ranch and Academy
Highlands Ranch, Colorado

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the STEM School Highlands Ranch and Academy, component unit of Douglas County School District, 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 STEM School Highlands Ranch and Academy, 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.

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**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the STEM School Highlands Ranch and Academy as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**
*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.

Hinkle & Company.pc

Greenwood Village, Colorado
October 26, 2021

**STEM School Highlands Ranch and Academy**
Management's Discussion and Analysis
For the Year Ended June 30, 2021

As management of STEM School Highlands Ranch (SSHR), we offer readers of STEM School Highlands and Academy's a 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 eleventh year of operations for SSHR and Academy.

The General Fund balance increased by $109,254 during the fiscal year ended June 30, 2021 with a total Fund Balance as of June 30, 2021, of $10,855,078.

The operation of SSCH and Academy is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for STEM decreased approximately 4.3% from $8,123.86 for 2019-2020 to $7,771.42 for 2020-2021 school year. STEM increased pupil count by 12 students, which amounted to a $93,257.04 increase in Per Pupil Revenue for 2020-2021 school year, or close to a 1% increase of student count.

### Overview of Financial Statements

The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### Government-Wide Financial Statements

Government-wide financial statements are prepared to provide interested parties with a broad overview of the School's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and deferred inflows and outflows, and remaining assessment of financial value. With historical data, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement 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 SSHR include instruction and supporting services.

## 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 are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

## 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.

For the year ended June 30, 2021, the School implemented GASB Statement No. 90 – Majority Equity Interest, which changed the Building Corporation from a proprietary fund to a Special Revenue (governmental) fund. Therefore, SSHR now maintains two governmental funds – the General Fund and the Building Corporation.

The General Fund reports the operating activity of the School. An annually appropriated budget is adopted for the General Fund. A budgetary comparison schedule is included to demonstrate that spending did not exceed the budget. The Building Corporation accounts for the School facilities, equipment, and the related tax-exempt financing.

## Notes to Financial Statements

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

**Other Information-GASB 68**

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the year ended June 30, 2021, SSHR's total net position was a negative ($20,237,329), and increased by $6,497,222 in fiscal year 2021. The net pension liability in the amount of $23,164,542, (see Note 7) represents the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position. Standard update procedures were used to roll forward the total pension liability by the PERA board as of November 20, 2020, with an effective date of December 31, 2020. Of SSHR's total net position, a negative ($5,596,543) is the Net Investment in Capital Assets. A negative ($17,627,006) is unrestricted and $575,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

**Government–Wide Financial Analysis**

The two summary statements below (pages iv and v) report the fiscal year 2021, and the prior year, fiscal year 2020. A change from prior years is the Building Corporation is no longer a propriety fund. The Building Corporation entity is combined and included with governmental activities and the summary statement below shows the combined condensed statement of net position.

**Analysis of Fund Operations**

Revenues: Total combined revenues for the period of July 1, 2020 through June 30, 2021 is a net loss of ($212,154). Included in revenue is deferred CARES monies of $607,309 of which 98% was used to offset COVID relief for staffing support. Overall revenue from 2019-2020 to 2020-2021 increased 1.4%. The majority of income was received in the form of per pupil revenue, allocated from the State of Colorado through the School's charter authorizer Douglas County School District. The School had 1,761 full time students and received $7,771.42 for per pupil funding. The rate of per pupil funding decreased $352.44 from 2019-2020 to 2020-2021. The School received $532,812 (9.25% increase from the prior year) in Capital Construction funding from the State of Colorado that supported the building lease expense. In 2019-2020 Douglas County received from the Federal Government CARES money (Coronavirus Aid, Relief, and Economic Security) of which SSHR received $735,384 to be spent by December 31, 2020, on expenditures associated with actions to facilitate compliance with COVID-19-related public health measures, including facilitating distance learning and social distancing for in-person contact hours and mitigating lost learning. As of June 30, 2021, SSHR utilized the remaining $607,309 as stated above to offset staffing and virtual/hybrid learning. As of the date of this report in August 2021 the SBA (Small Business Association) has issued loan forgiveness for the PPP Loan received in the prior year. However SSHR still carries the loan as restricted in the fund balance for the 2020-2021 reporting period.

Expenses: Total expenses for the period of July 1, 2020, through June 30, 2021, were $19,711,737 up 7.07% from the year ended June 30, 2020. The overall increase in expense is attributed to the purchase of the 8920 Barron's building to be used for administration offices and the P-Tech program.

General Fund: For the period of July 1, 2020, through June 30, 2021, STEM reported an ending General Fund Balance of $10,855,078, or a 1% increase from the prior year.

## Analysis of Budget-General Fund

The original 2020-2021 SSHR school budget was approved, then revised based on projected October enrollment and finalized by the Board of Directors in April, 2020. The revised budget projected revenue at $17,764,350 and expenses at $20,711,186. However, revenue exceeded budget by $108,236 and expenses were below the revised budget by 14% even with the purchase of the 8920 Barron building for approximately $2.4M. The School's actual fund balance increased by $109,254 – a 1% increase.

## Capital Assets and Long-Term Debt

SSHR has two outstanding bonds: Series 2014 originally issued for $14,670,000 with an outstanding principal balance of $13,475,000, and Series 2019 originally issued for $10,795,000 with an outstanding principal balance of $10,730,000 at June 30, 2021. Additional information regarding capital asset and long-term debt for these Series bonds is provided in Notes 5 to the financial statements.

## Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Actual enrollment for the 2020-21 school year was 1,761 and budgeted projected enrollment for the 2020-21 school year was 1,750.

The Board and School administration acknowledge that the amount of funding for School operations is contingent upon the state of the economy and current and future legislation. Therefore, the School practices conservative budgeting and closely monitors the budget to actual in order to proactively adjust planned spending when necessary.

## Unusual and Extraordinary

As of the date of this report, SSHR has received additional Series 2021 Bond funding for $12,425,000 to be used to build out a CHASSA gymnasium and P-Tech construction to the 8920 Barrons building. COVID-19 continues to be on the forefront of schools and SSHR continues to hold to a very stringent approach to financial decisions to ensure it can still meet and exceed the SSHR community needs.

Condensed Statement of Net Position

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| | 2020-2021 | 2019-2020 | 2020-2021 | 2019-2020 |
| **Current assets:** | | | | |
| **Cash Assets** | $ 14,528,132 | $ 12,253,266 | $ - | $ 2,732,628 |
| **Other Assets** | $ 200,276 | $ 155,696 | $ - | $ - |
| **Net capital assets** | $ 19,244,290 | $ 1,386,347 | $ - | $ 15,938,714 |
| **Deferred Outflow of Resources** | | | | |
| Pension & OPEB, net of Accumulated Amortization | $ 8,379,137 | $ 3,260,319 | $ - | $ - |
| **TOTAL ASSETS** | $ 42,351,835 | $ 17,055,628 | $ - | $ 18,671,342 |
| | | | | |
| **Current liabilities:** | $ 1,964,688 | $ 1,663,138 | $ - | $ 484,478 |
| **Long-term liabilities:** | $ 50,538,910 | $ 22,338,577 | $ - | $ 24,859,242 |
| **Deferred Inflow of Resources** | | | | |
| Pension & OPEB, net of Accumulated Amortization | $ 10,085,566 | $ 13,116,086 | $ - | $ - |
| **TOTAL LIABILITIES** | $ 62,589,164 | $ 37,117,801 | $ - | $ 25,343,720 |
| | | | | |
| **Net position:** | | | | |
| **Net investment in capital assets** | $ (5,596,543) | $ 1,386,347 | $ - | $ (9,205,528) |
| **Restricted for Debt Service** | $ 2,082,003 | $ - | $ - | $ 2,229,002 |
| **Restricted for TABOR** | $ 575,000 | $ 575,000 | $ - | $ - |
| **Restricted for other purposes** | $ 329,217 | $ - | $ - | $ 304,148 |
| **Unrestricted** | $ (17,627,006) | $ (22,023,520) | $ - | $ - |
| **TOTAL NET POSITION** | $ (20,237,329) | $ (20,062,173) | $ - | $ (6,672,378) |

**Condensed Statement of Activities**

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| | Actual 2020-2021 | Actual 2019-2020 | Actual 2020-2021 | Actual 2019-2020 |
| **Revenue:** | | | | |
| **Per Pupil Revenue** | $ 13,755,580 | $ 14,259,921 | $ - | $ - |
| **Investments** | | | | |
| **Mill Levy/Override** | $ 2,081,483 | $ 2,031,088 | $ - | $ - |
| **Capital Contruction** | $ 532,812 | $ 487,709 | $ - | $ - |
| **Interest Income** | $ 15,748 | $ 141,551 | $ - | $ 1,281 |
| **Student Participation Fees** | $ 408,389 | $ 356,243 | $ - | $ - |
| **Rental/Lease** | $ 1,586,467 | $ 66,025 | $ - | $ - |
| **Grants and Contributions/Donations** | $ 1,119,104 | $ 448,053 | $ - | $ - |
| **Local Sources** | $ 19,499,583 | $ 17,790,590 | $ - | $ 1,281 |
| **Total Revenues** | $ 19,499,583 | $ 17,790,590 | $ - | $ 1,281 |
| **Expenses:** | | | | |
| **Instructional** | $ 5,025,272 | $ 7,418,097 | $ - | $ - |
| **Support** | $ 6,806,229 | $ 6,040,232 | $ - | $ - |
| **Building Corporation** | $ - | $ - | $ - | $ 5,021,656 |
| **Debt Service Expense** | $ 1,170,860 | $ - | $ - | $ - |
| **Total Expenses** | $ 13,002,361 | $ 13,458,329 | $ - | $ 5,021,656 |
| **Transfers** | $ - | $ (1,419,395) | $ - | $ 1,419,395 |
| **Change in Net Position** | $ 6,497,222 | $ 2,912,866 | $ - | $ (3,600,980) |
| **Net Position, Beginning** | $ (26,734,551) | $ (22,975,039) | $ - | $ (3,071,398) |
| **Net Position, Ending** | $ (20,237,329) | $ (20,062,173) | $ - | $ (6,672,378) |

## Requests for Information

This financial report is provided as a general overview of the STEM School Highland Ranch and Academy's finances for persons interested in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Star Ake, CFO
STEM School and Academy
8773 South Ridgeline Boulevard.
Highlands Ranch, CO 80129

# Basic Financial Statements

# STEM School Highlands Ranch and Academy

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

Statement of Net Position

June 30, 2021

| | Governmental Activities | Component Unit STEM Academy |
|---|---|---|
| **Assets** | | |
| Cash and Investments | $ 11,969,754 | $ 8,049 |
| Restricted Cash and Investments | 2,558,378 | - |
| Accounts Receivable | 34,851 | - |
| Interfund Receivable | 147,158 | - |
| Prepaid Expenses | 18,267 | - |
| Capital Assets, *Not Being Depreciated* | 2,370,970 | - |
| Capital Assets, *Net of Accumulated Depreciation* | 16,873,320 | - |
| Total Assets | 33,972,698 | 8,049 |
| **Deferred Outflows of Resources** | | |
| Pensions, *Net of Accumulated Amortization* | 8,230,434 | - |
| OPEB, *Net of Accumulated Amortization* | 148,703 | - |
| Total Deferred Outflows of Resources | 8,379,137 | - |
| **Liabilities** | | |
| Accounts Payable | 334,604 | - |
| Interfund Payable | 147,158 | - |
| Accrued Liabilities | 380,474 | - |
| Accrued Salaries and Benefits | 599,874 | - |
| Accrued Interest Payable | 197,578 | - |
| Noncurrent Liabilities | | |
| Due Within One Year | 305,000 | - |
| Due in More Than One Year | 26,532,433 | - |
| Net Pension Liability | 23,164,542 | - |
| Net OPEB Liability | 841,935 | - |
| Total Liabilities | 52,503,598 | - |
| **Deferred Inflows of Resources** | | |
| Pensions, *Net of Accumulated Amortization* | 9,791,323 | - |
| OPEB, *Net of Accumulated Amortization* | 294,243 | - |
| Total Deferred Inflows of Resources | 10,085,566 | - |
| **Net Position** | | |
| Net Investment in Capital Assets | (5,596,543) | - |
| Restricted for: | | |
| Debt Service | 2,082,003 | - |
| Repair and Replacement | 329,217 | - |
| Emergencies | 575,000 | - |
| Unrestricted | (17,627,006) | 8,049 |
| Total Net Position | $ (20,237,329) | $ 8,049 |

*See Notes to the Financial Statements.*

# STEM School Highlands Ranch and Academy

*(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: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Change in Net Position | Component Unit: STEM Academy |
|---|---|---|---|---|---|---|
| **Primary Government** | | | | | | |
| *Governmental Activities* | | | | | | |
| Instruction | $ 5,025,272 | $ 408,389 | $ 235,675 | $ - | $ (4,381,208) | $ - |
| Supporting Services | 6,806,229 | 1,586,468 | 638,264 | 159,913 | (4,421,584) | - |
| Interest on Long-Term Debt | 1,170,860 | - | - | - | (1,170,860) | - |
| Total Governmental Activities | $ 13,002,361 | $ 1,994,857 | $ 873,939 | $ 159,913 | (9,973,652) | - |
| **Component Unit** | | | | | | |
| STEM Academy | $ 98,789 | $ - | $ - | $ - | - | (98,789) |
| | **General Revenues** | | | | | |
| | Per Pupil Revenue | | | | 13,755,580 | - |
| | District Mill Levy | | | | 2,081,483 | - |
| | Capital Construction | | | | 532,812 | - |
| | Grants and Contributions not Restricted to Specific Programs | | | | 61,987 | 52,079 |
| | Investment Income | | | | 15,748 | - |
| | Others | | | | 23,264 | - |
| | Total General Revenues and Transfers | | | | 16,470,874 | 52,079 |
| | Change in Net Position | | | | 6,497,222 | (46,710) |
| | **Net Position**, *Beginning of year* | | | | (26,734,551) | 54,759 |
| | **Net Position**, *End of year* | | | | $ (20,237,329) | $ 8,049 |

# STEM School Highlands Ranch and Academy
*(A Component Unit of Douglas County School District RE.1)*
Balance Sheet
Governmental Fund
June 30, 2021

| | General | Building | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and Investments | $ 11,969,754 | $ - | $ 11,969,754 |
| Restricted Cash and Investments | - | 2,558,378 | 2,558,378 |
| Accounts Receivable | 34,851 | - | 34,851 |
| Interfund Receivable | 147,158 | - | 147,158 |
| Prepaid Expenses | 18,267 | - | 18,267 |
| Total Assets | $ 12,170,030 | $ 2,558,378 | $ 14,728,408 |
| **Liabilities and Fund Balance** | | | |
| *Liabilities* | | | |
| Accounts Payable | $ 334,604 | $ - | $ 334,604 |
| Interfund Payable | - | 147,158 | 147,158 |
| Accrued Liabilities | 380,474 | - | 380,474 |
| Accrued Salaries and Benefits | 599,874 | - | 599,874 |
| Total Liabilities | 1,314,952 | 147,158 | 1,462,110 |
| *Fund Balance* | | | |
| Nonspendable Prepaid Expenditures | 18,267 | - | 18,267 |
| Restricted for: | | | |
| Emergencies | 575,000 | - | 575,000 |
| Multi Year Obligations | 1,996,600 | - | 1,996,600 |
| Debt Service | - | 2,082,003 | 2,082,003 |
| Repair and Replacement | - | 329,217 | 329,217 |
| Unrestricted, Unassigned | 8,265,211 | - | 8,265,211 |
| Total Fund Balance | 10,855,078 | 2,411,220 | 13,266,298 |
| Total Liabilities and Fund Balance | $ 12,170,030 | $ 2,558,378 | $ 14,728,408 |

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

| | |
|---|---|
| Total Fund Balance of the Governmental Fund | $ 13,266,298 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 19,244,290 |
| 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 | (197,578) |
| Long Term Debt | (26,837,433) |
| Net pension liability | (23,164,542) |
| Pension-related deferred outflows of resources | 8,230,434 |
| Pension-related deferred inflows of resources | (9,791,323) |
| Net OPEB liability | (841,935) |
| OPEB-related deferred outflows of resources | 148,703 |
| OPEB-related deferred inflows of resources | (294,243) |
| Total Net Position of Governmental Activities | $ (20,237,329) |

# STEM School Highlands Ranch and Academy

*(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** | | | |
| Local Sources | $ 16,465,835 | $ 1,626,997 | $ 18,092,832 |
| State Sources | 768,487 | - | 768,487 |
| Federal Sources | 638,264 | - | 638,264 |
| Total Revenues | 17,872,586 | 1,626,997 | 19,499,583 |
| **Expenditures** | | | |
| Instruction | 8,114,086 | - | 8,114,086 |
| Supporting Services | 9,624,246 | 497,236 | 10,121,482 |
| Debt Service | | | |
| Principal | - | 285,000 | 285,000 |
| Interest | - | 1,191,169 | 1,191,169 |
| Total Expenditures | 17,738,332 | 1,973,405 | 19,711,737 |
| **Excess of Revenues Over (Under) Expenditures** | 134,254 | (346,408) | (212,154) |
| **Other Financing Sources (Uses)** | | | |
| Transfers Out | (25,000) | 25,000 | - |
| Total Other Financing Sources (Uses) | (25,000) | 25,000 | - |
| **Net Change in Fund Balance** | 109,254 | (321,408) | (212,154) |
| **Fund Balance**, *Beginning of year* | 10,745,824 | 2,732,628 | 13,478,452 |
| **Fund Balance**, *End of year* | $ 10,855,078 | $ 2,411,220 | $ 13,266,298 |

*See Notes to the Financial Statements.*

# STEM School Highlands Ranch and Academy

*(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 | $ | (212,154) |
| 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. | | |
| Capital outlay | | 2,774,764 |
| Depreciation expense | | (855,535) |
| 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. | | |
| Loan Payments | | 303,409 |
| 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. | | |
| Net pension liability | | (3,775,868) |
| Pension-related deferred outflows of resources | | 5,110,306 |
| Pension-related deferred inflows of resources | | 3,119,106 |
| Net OPEB liability | | 111,368 |
| OPEB-related deferred outflows of resources | | 8,512 |
| OPEB-related deferred inflows of resources | | (88,586) |
| Accrued Interest Payable | | 1,900 |
| Change in Net Position of Governmental Activities | $ | 6,497,222 |

*See Notes to the Financial Statements.*

## Note 1: Summary of Significant Accounting Policies

The Science Technology Engineering and Math (STEM) School Highlands Ranch and Academy, dba the STEM School and Academy (the School) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the District).

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 accounting 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 LightHouse Building Corporation (the Corporation) within its reporting entity. The Corporation was organized to own property or interests therein to be leased to the School. The Corporation is blended into the School's financial statements as a Special Revenue Fund and does not issue separate financial statements.

The School includes the STEM Academy (the Academy) within its reporting entity. The Academy is a non-profit entity organized for the purpose of building youth organizations, assisting teens in making healthy decisions and avoiding high-risk behaviors by engaging in high-tech, educational, creative, preventative, or fun activities. The Academy provides educational classes, activities, and clubs. The Academy is discretely presented in the School's financial statements and does not issue separate financial statements.

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.

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

***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 and its component units. 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. The primary government is reported separately from the legally separate component unit for which the School is financially accountable.

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. Internally dedicated resources are reported as general revenues rather than as program 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.* 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.

Major individual funds are reported as separate columns in the fund financial statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are 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.

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

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation*** *(Continued)*

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, including facilities acquisition and construction, and the related debt service.

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

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

*Account Receivables* - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

*Prepaid Expenses* - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

*Capital Assets* - Capital assets, which include land, buildings, and equipment, are reported in the government-wide 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.

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

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

Depreciation or amortization of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation or amortization is reported in the Statement of Net Position in the government-wide financial statements. Depreciation or amortization has been provided over the following estimated useful life of the capital assets or related lease agreement using the straight-line method.

| | |
|---|---|
| Land Improvements | 10 years |
| Buildings | 40 years |
| Building Improvements | 10 - 15 years |
| Equipment | 2 - 10 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* - The School's policy allows eligible employees to use nine days of personal and sick leave annually. Employees are compensated for any unused leave at $150 per day. Upon termination, employees are paid for any unused sick and personal leave. No liability for these compensated absences is reported in the financial statements because employees are compensated for any unused leave prior to the end of each fiscal year.

*Long-Term Debt* - In the government-wide 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.

*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.

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

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

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

***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. 90 - Majority Equity Interests. 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.

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

### ***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 06/30/20 | Capital Assets Adjustments | Loan Payable Adjustments | Interest Payable Adjustments | As Restated Balance 06/30/20 |
|---|---|---|---|---|---|
| Balance Sheet | | | | | |
| Assets | | | | | |
| Restricted Cash and Investments | $ 2,732,628 | $ - | $ - | $ - | $ 2,732,628 |
| Capital Assets | 15,938,714 | (15,938,714) | - | - | - |
| Liabilities | | | | | |
| Interest Payable | 199,478 | - | - | (199,478) | - |
| Loan Payable | 25,144,242 | - | (25,144,242) | - | - |
| Fund Balance | $ (6,672,378) | $ (15,938,714) | $ 25,144,242 | $ 199,478 | $ 2,732,628 |

### ***Subsequent Events***

The School has evaluated subsequent events through October 26, 2021, the date the financial statements were available to be issued.

## Note 2: Stewardship, Compliance and Accountability

### ***Accountability***

At June 30, 2021, the Corporation had a net position of $2,411,220.

At June 30, 2021, the Academy had a net position of $8,049.

## Note 3: Deposits and Investments

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

| | | |
|---|---|---|
| Petty Cash | $ | 200 |
| Deposits | | 1,819,079 |
| Investments | | 12,716,902 |
| Total | $ | 14,536,181 |

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

| | | |
|---|---|---|
| Cash and Investments | $ | 11,977,803 |
| Restricted Cash and Investments | | 2,558,378 |
| Total | $ | 14,536,181 |

### ***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 $1,824,079 collateralized with securities held by the financial institution’s agent 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.

- 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

*Fair Value Measurements* - At June 30, 2021, the School’s investment in Colotrust and the Corporation’s investment in a money market fund were reported at the net asset value per share.

### Note 3: Deposits and Investments (Continued)

***Investments*** *(Continued)*

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of 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 Corporation had $2,558,378 invested in a money market fund rated AAAm by Standard and Poor's.

*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 $10,158,524 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, 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, the Corporation held investments of $2,558,378 restricted for future debt service and building repair and replacement.

## Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2021, is summarized below. Depreciation and amortization are combined in the following table.

| **Governmental Activities** | **Balance 06/30/20** | **Additions** | **Deletions** | **Balance 06/30/21** |
|---|---|---|---|---|
| Capital Assets, *Not Being Depreciated* | | | | |
| Land | $ 2,370,970 | $ - | $ - | $ 2,370,970 |
| Total Capital Assets, *Not Being Depreciated* | 2,370,970 | - | - | 2,370,970 |
| Capital Assets, *Being Depreciated* | | | | |
| Land Improvements | 365,936 | 190,078 | (365,936) | 190,078 |
| Buildings | 12,429,432 | 2,200,802 | - | 14,630,234 |
| Building Improvements | 5,210,334 | 344,760 | - | 5,555,094 |
| Equipment | 878,340 | 39,124 | - | 917,464 |
| Total Capital Assets, *Being Depreciated* | 18,884,042 | 2,774,764 | (365,936) | 21,292,870 |
| *Less Accumulated Depreciation* | | | | |
| Land Improvements | (365,936) | (19,008) | 365,936 | (19,008) |
| Buildings | (1,164,270) | (378,268) | - | (1,542,538) |
| Building Improvements | (1,689,653) | (354,800) | - | (2,044,453) |
| Equipment | (710,092) | (103,459) | - | (813,551) |
| Total Accumulated Depreciation | (3,929,951) | (855,535) | 365,936 | (4,419,550) |
| Total Capital Assets, *Being Depreciated*, *Net* | 14,954,091 | 1,919,229 | - | 16,873,320 |
| Governmental Activities Capital Assets, *Net* | $ 17,325,061 | $ 1,919,229 | $ - | $ 19,244,290 |

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

## Note 5: Long-Term Debt

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

| | Balance 6/30/20 | Additions | Payments | Balance 6/30/21 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| 2014 Building Loan | $ 13,695,000 | $ - | $ (220,000) | $ 13,475,000 | $ 230,000 |
| 2014 Loan Discount | (110,699) | - | 3,817 | (106,882) | - |
| 2019 Building Loan | 10,795,000 | - | (65,000) | 10,730,000 | 75,000 |
| 2019 Bond Premium | 764,941 | - | (22,226) | 742,715 | - |
| PPP Loan | 1,996,600 | - | - | 1,996,600 | - |
| | $ 27,140,842 | $ - | $ (303,409) | $ 26,837,433 | $ 305,000 |

On June 2020, the School obtained a loan from a local bank under the Paycheck Protection Plan (PPP) program administered by the Small Business Administration (SBA) in the amount of $1,996,600. Interest accrues on the loan at rate of 1% per annum, and is payable monthly starting July 1, 2020, however, payments will be deferred until the date on which SBA provides the lender the amount of forgiveness.

The School has filed an application under SBA guidance for forgiveness for the entire amount of the indebtedness. While the SBA has not processed the application, management believes the School has complied with all requirements for forgiveness. Any portion of the loan not forgiven will be repaid under the existing terms of the loans.

On November 20, 2014, the Colorado Educational and Cultural Facilities Authority (CECFA) issued $14,670,000 Charter School Refunding Revenue Bonds, Series 2014. Bond proceeds were used to refund the outstanding Charter School Revenue Bonds, Series 2012 and 2013, originally loaned to the Corporation to acquire land and a building and to construct improvements to the building for use as an educational facility. Interest accrues on the bonds at rates ranging from 4% to 5.125% per annum and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2049.

On November 1, 2019, CECFA issued $10,795,000 Charter School Revenue Bonds, Series 2019. Proceeds in the amount of $2,650,000 were used to pay in full the previously issued Charter School Taxable Revenue Bonds, Series 2016. Additional proceeds of $8,145,000 were loaned to the Corporation to finance the acquisition of the School's educational facilities, funding a Reserve Fund and Paying costs associated with the issuance of 2019 Bond. Interest accrues on the bonds at rates ranging from 4% to 5% per annum and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2054.

## Note 5: Long-Term Debt (Continued)

The School is obligated under lease agreements to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the bond trustee for payment of the bonds.

Future debt service requirements for the bonds are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2022 | $ 305,000 | $ 1,180,868 | $ 1,485,868 |
| 2023 | 315,000 | 1,168,468 | 1,483,468 |
| 2024 | 330,000 | 1,155,668 | 1,485,668 |
| 2025 | 345,000 | 1,142,268 | 1,487,268 |
| 2026 | 355,000 | 1,127,481 | 1,482,481 |
| 2027-2031 | 2,035,000 | 5,383,773 | 7,418,773 |
| 2032-2036 | 2,555,000 | 4,854,257 | 7,409,257 |
| 2037-2041 | 3,245,000 | 4,145,535 | 7,390,535 |
| 2042-2046 | 4,140,000 | 3,231,353 | 7,371,353 |
| 2047-2051 | 5,300,000 | 2,070,962 | 7,370,962 |
| 2052-2055 | 5,280,000 | 676,250 | 5,956,250 |
| Total | $ 24,205,000 | $ 26,136,883 | $ 50,341,883 |

## Note 6: Interfund Transactions

During the year ended June 30, 2021, the General Fund transferred $25,000 to the Corporation to fund the repair and replacement reserve, as required by the Corporation's loan agreement (See Note 5).

## Note 7: 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.

## Note 7: Defined Benefit Pension Plan (Continued)

***General Information*** *(Continued)*

*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.

## Note 7: 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 lessor 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, 2020through 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 OPEB Note 8). 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.

## Note 7: 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 $1,731,444 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 $23,164,542 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's proportionate share of net pension liability | $ 23,164,542 |
| The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School | - |
| Proportionate share of the net pension liability | $ 23,164,542 |

At December 31, 2020, the School's proportion was 0.1532250824%, which was an increase of 0.0234462629% from its proportion measured at December 31, 2019.

For the year ended June 30, 2021, the School recognized a pension benefit of $2,794,876. There was no support from the State as a nonemployer contributing entity.

## Note 7: 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 | $ 1,272,778 | $ - |
| Changes of assumptions and other inputs | 2,228,357 | 3,893,762 |
| Net difference between projected and actual earnings on plan investments | - | 5,099,040 |
| Changes in proportion | 3,754,723 | 798,521 |
| Contributions subsequent to the measurement date | 974,576 | - |
| Total | $ 8,230,434 | $ 9,791,323 |

School contributions subsequent to the measurement date of $974,576 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 (benefit) as follows:

| Year Ended June 30, | |
|---|---|
| 2022 | $ (3,204,220) |
| 2023 | 1,727,241 |
| 2024 | (254,085) |
| 2025 | (804,401) |
| Total | $ (2,535,465) |

## Note 7: 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 | 3.5% |
| Salary increases, including wage inflation | 3.5% - 9.7% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Post retirement benefit increases: | |
| Hired prior to 1/1/2007 | 1.25% |
| Hired after 12/31/2006 | Financed by AIR |

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.

**Note 7: Defined Benefit Pension Plan** (Continued)

***<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>*** *(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% |
| Post retirement 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:

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

## Note 7: Defined Benefit Pension Plan (Continued)

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

- 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.

## Note 7: 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:

| Asset Class | Target Allocation | 30 Year Expected Geometric Real Rate of Return |
|---|---|---|
| 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% |
| Total | 100.00% | |

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

*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.

## Note 7: 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.

## Note 7: 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 | $ 31,598,332 | $ 23,164,542 | $ 16,136,415 |

*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 8: 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.

## Note 8: 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.

## Note 8: 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 $84,443 for the year ended June 30, 2021.

## Note 8: Postemployment Healthcare Benefits (Continued)

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

At June 30, 2021, the School reported a liability of $841,935 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.

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 0.0886037309%, which was an increase of 0.0037901801% from its proportion measured at December 31, 2019.

For the year ended June 30, 2021, the School recognized OPEB expense of $46,776. 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 | $ 2,236 | $ 185,099 |
| Changes in assumptions and other inputs | 6,291 | 51,626 |
| Net difference between projected and actual earnings on plan investments | - | 34,401 |
| Changes in proportion | 90,173 | 23,117 |
| Contributions subsequent to the measurement date | 50,003 | - |
| Total | $ 148,703 | $ 294,243 |

## Note 8: Postemployment Healthcare Benefits (Continued)

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

School contributions subsequent to the measurement date of $50,003 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 (benefit) as follows:

| **Year Ended June 30,** | | |
|---|---|---|
| 2022 | $ | (34,609) |
| 2023 | | (29,791) |
| 2024 | | (59,877) |
| 2025 | | (54,989) |
| 2026 | | (16,070) |
| Thereafter | | (207) |
| Total | $ | (195,543) |

*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 |

## Note 8: Postemployment Healthcare Benefits (Continued)

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

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.

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.

## Note 8: Postemployment Healthcare Benefits (Continued)

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

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.

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.

## Note 8: Postemployment Healthcare Benefits (Continued)

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

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.

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:

**Note 8: Postemployment Healthcare Benefits** (Continued)

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

- 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.

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 7).

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.

## Note 8: Postemployment Healthcare Benefits (Continued)

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

- 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%.

*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 | $ 964,452 | $ 841,935 | $ 737,254 |

*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 | $ 820,174 | $ 841,935 | $ 867,267 |

*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 9: 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.

***TABOR Amendment***

In November 1992, Colorado voters approved 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. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2021, the reserve was reported as restricted fund balance in the General Fund, in the amount of $575,000.

## Note 10: 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.

## Note 11: Subsequent Event

In August 2021, the PPP Loan has been forgiven amounting to $1,996,600.

# Required Supplementary Information

# STEM School Highlands Ranch and Academy

*(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

For the Year Ended June 30, 2021

| | 12/31/20 | 12/31/19 | 12/31/18 |
|---|---|---|---|
| **Proportionate Share of the Net Pension Liability** | | | |
| School's Proportion of the Net Pension Liability | 0.1532250824% | 0.1297788195% | 0.1328656657% |
| School's Proportionate Share of the Net Pension Liability | $ 23,164,542 | $ 19,388,674 | $ 23,526,595 |
| School's Covered-Employee Payroll | $ 8,193,595 | $ 7,626,357 | $ 7,304,336 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 283% | 254% | 322% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 67% | 65% | 57% |

| | 6/30/21 | 6/30/20 | 6/30/19 |
|---|---|---|---|
| **School Contributions** | | | |
| Statutorily Required Contribution | $ 1,645,812 | $ 1,532,742 | $ 1,397,320 |
| Contributions in Relation to the Statutorily Required Contribution | (1,645,812) | (1,532,742) | (1,397,320) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| School's Covered-Employee Payroll | $ 8,278,706 | $ 7,908,884 | $ 8,086,030 |
| Contributions as a Percentage of Covered-Employee Payroll | 19.88% | 19.38% | 17.28% |

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)*

# STEM School Highlands Ranch and Academy

*(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

For the Year Ended June 30, 2021

*(Continued)*

| | 12/31/17 | 12/31/16 | 12/31/15 | 12/31/14 | 12/31/13 |
|---|---|---|---|---|---|
| **Proportionate Share of the Net Pension Liability** | | | | | |
| School's Proportion of the Net Pension Liability | 0.1446067250% | 0.1187612728% | 0.0865195772% | 0.0700334985% | 0.0591000446% |
| School's Proportionate Share of the Net Pension Liability | $ 46,760,676 | $ 35,359,823 | $ 13,232,559 | $ 9,491,891 | $ 7,538,195 |
| School's Covered-Employee Payroll | $ 6,670,537 | $ 5,328,712 | $ 3,763,936 | $ 2,933,901 | $ 2,382,510 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 701% | 664% | 352% | 324% | 316% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 44% | 43% | 59% | 63% | 64% |

| | 6/30/18 | 6/30/17 | 6/30/16 | 6/30/15 | 6/30/14 |
|---|---|---|---|---|---|
| **School Contributions** | | | | | |
| Statutorily Required Contribution | $ 1,330,870 | $ 1,146,299 | $ 806,138 | $ 539,534 | $ 424,023 |
| Contributions in Relation to the Statutorily Required Contribution | (1,330,870) | (1,146,299) | (806,138) | (539,534) | (424,023) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| School's Covered-Employee Payroll | $ 7,047,143 | $ 6,232,956 | $ 4,544,302 | $ 3,196,033 | $ 2,653,206 |
| Contributions as a Percentage of Covered-Employee Payroll | 18.89% | 18.39% | 17.74% | 16.88% | 15.98% |

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.

# STEM School Highlands Ranch and Academy

*(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

For the Year Ended June 30, 2021

| | 12/31/20 | 12/31/19 | 12/31/18 | 12/31/17 |
|---|---|---|---|---|
| **Proportionate Share of the Net OPEB Liability** | | | | |
| School's Proportion of the Net OPEB Liability | 0.0886037309% | 0.0848135508% | 0.0863633965% | 0.0821649891% |
| School's Proportionate Share of the Net OPEB Liability | $ 841,935 | $ 953,303 | $ 1,175,010 | $ 1,067,816 |
| School's Covered Payroll | $ 8,193,595 | $ 7,626,357 | $ 7,304,336 | $ 6,670,537 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 10% | 13% | 16% | 16% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 33% | 24% | 0% | 18% |

| | 6/30/21 | 6/30/20 | 6/30/19 | 6/30/18 |
|---|---|---|---|---|
| **School Contributions** | | | | |
| Statutorily Required Contribution | $ 84,443 | $ 80,671 | $ 74,504 | $ 71,881 |
| Contributions in Relation to the Statutorily Required Contribution | (84,443) | (80,671) | (74,504) | (71,881) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - |
| School's Covered Payroll | $ 8,278,706 | $ 7,908,884 | $ 8,086,030 | $ 8,637,824 |
| Contributions as a Percentage of Covered Payroll | 1.02% | 1.02% | 0.92% | 0.83% |

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.

# STEM School Highlands Ranch and Academy

*(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** | | | | |
| *Local Sources* | | | | |
| Per Pupil Revenue | $ 13,220,053 | $ 13,458,014 | $ 13,755,580 | $ 297,566 |
| District Mill Levy | 1,857,645 | 1,994,092 | 2,081,483 | 87,391 |
| Student Fees and Activities | 357,600 | 348,049 | 408,389 | 60,340 |
| Contributions and Donations | 50,000 | 50,000 | 85,251 | 35,251 |
| Investment Income | 140,000 | 55,000 | 41,099 | (13,901) |
| Rental Income | 66,000 | 66,000 | 94,033 | 28,033 |
| Total Local Sources | 15,691,298 | 15,971,155 | 16,465,835 | 494,680 |
| *State Sources* | | | | |
| Grants | 454,896 | 42,756 | 235,675 | 192,919 |
| Capital Construction | 50,148 | 512,748 | 532,812 | 20,064 |
| Total State Sources | 505,044 | 555,504 | 768,487 | 212,983 |
| *Federal Sources* | | | | |
| Grants | - | 1,237,691 | 638,264 | (599,427) |
| Total Federal Sources | - | 1,237,691 | 638,264 | (599,427) |
| Total Revenues | 16,196,342 | 17,764,350 | 17,872,586 | 108,236 |
| **Expenditures** | | | | |
| Salaries | 9,145,000 | 9,216,000 | 8,637,824 | 578,176 |
| Employee Benefits | 2,660,299 | 2,694,337 | 2,382,263 | 312,074 |
| Purchased Services | 4,367,024 | 5,399,449 | 3,719,495 | 1,679,954 |
| Supplies | 500,000 | 520,000 | 491,206 | 28,794 |
| Property | 370,600 | 2,582,400 | 2,469,117 | 113,283 |
| Other | 300,000 | 299,000 | 38,427 | 260,573 |
| Total Expenditures | 17,342,923 | 20,711,186 | 17,738,332 | 2,972,854 |
| **Excess of Revenues Over (Under) Expenditures** | (1,146,581) | (2,946,836) | 134,254 | 3,081,090 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers | - | - | (25,000) | (25,000) |
| Total Other Financing Sources (Uses) | - | - | (25,000) | (25,000) |
| **Net Change in Fund Balance** | (1,146,581) | (2,946,836) | 109,254 | 3,056,090 |
| **Fund Balance**, *Beginning of year* | 9,819,650 | 10,745,824 | 10,745,824 | - |
| **Fund Balance**, *End of year* | $ 8,673,069 | $ 7,798,988 | $ 10,855,078 | $ 3,056,090 |

## 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-2014 Mortality Tables.

## Note 2: Stewardship, Compliance and Accountability

***Budgets and Budgetary Accounting***

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.