

**FLAGSTAFF ACADEMY**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2021**

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## FINANCIAL SECTION

Board of Directors  
Flagstaff Academy  
Longmont, Colorado

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Flagstaff Academy, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Flagstaff Academy, as of June 30, 2021, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedules of the Academy's proportionate share, and the schedules of the Academy's contributions on pages 51-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The supplementary information on pages 56 to 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*PB Solutions LLC*

October 29, 2021

## **Flagstaff Academy Management Discussion and Analysis**

As management of Flagstaff Academy (FSA or the School), we offer readers of Flagstaff Academy's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2021.

### **Financial Highlights**

The year ended June 30, 2021 is the sixteenth year of operations for FSA. As of June 30, 2021, net position increased by \$3,112,707 to \$(12,340,101). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Numbers 68 and 75. Further information about GASB 68 and 75 is provided in Notes 6 and 7 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$6,187,011. At the close of the fiscal year, Flagstaff Academy's governmental funds reported an ending fund balance of \$5,775,996, an increase of \$83,601 from prior year.

### **Overview of Financial Statements**

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

#### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all the School's assets, liabilities, and deferred inflows and outflows, with the difference reported as net position. Over time, increases or 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 most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (St. Vrain Valley School District). The governmental activities of the School 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, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The School adopts annually appropriated budgets for the General Fund. A budgetary comparison schedule for the General Fund has been provided herein.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 7-50.

## **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Flagstaff Academy, liabilities and deferred inflows exceeded assets and deferred outflows resulting in a net position of \$(12,340,101) in FY 2020-2021. Again, this is directly related to the Pension Plan and the Defined Benefit Other Post Employment Benefit (OPEB) liabilities reporting requirements under GASB 68 and 75. Of the School's total net position, \$295,240 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy the School's general operating expenses.

**Flagstaff Academy's Net Position  
Governmental Activities**

|   | June 30, 2021          | June 30, 2020          |
|---|------------------------|------------------------|
| <b>ASSETS</b>                               |                        |                        |
| Cash and Investments                        | \$ 4,807,715           | \$ 5,017,944           |
| Restricted Cash and Investments             | 1,255,646              | 1,249,839              |
| Due from District                           | 240,641                | -                      |
| Prepaid Expenses                            | 8,162                  | 3,168                  |
| Deposits                                    | 117,060                | 71,067                 |
| Capital Assets, Not Depreciated             | -                      | -                      |
| Capital Assets, Net of Accum Depreciation   | 8,960,930              | 9,266,987              |
| <b>Total Assets</b>                         | <b>15,390,154</b>      | <b>15,609,005</b>      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>       |                        |                        |
| Cost of Refunding                           | 1,246,908              | 1,296,784              |
| Related to Pensions                         | 3,749,737              | 1,604,004              |
| Related to OPEB                             | 47,815                 | 54,715                 |
| <b>Total Deferred Outflows of Resources</b> | <b>5,044,460</b>       | <b>2,955,503</b>       |
| <b>LIABILITIES</b>                          |                        |                        |
| Accounts Payable                            | 78,718                 | 42,212                 |
| Due to District                             | 22,506                 | 42,244                 |
| Accrued Expenses                            | 66,589                 | 117,872                |
| Accrued Salaries & Benefits                 | 452,124                | 412,079                |
| Unearned Revenues                           | 33,291                 | 35,216                 |
| Accrued Interest Payable                    | 212,870                | 217,120                |
| Noncurrent Liabilities                      |                        |                        |
| Net Pension Liability                       | 12,901,375             | 11,536,537             |
| Net OPEB Liability                          | 469,148                | 567,158                |
| Due in One Year                             | 265,000                | 255,000                |
| Due in More than One Year                   | 12,678,477             | 13,056,858             |
| <b>Total Liabilities</b>                    | <b>27,180,098</b>      | <b>26,282,296</b>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>        |                        |                        |
| Related to Pensions                         | 5,428,542              | 7,626,476              |
| Related to OPEB                             | 166,075                | 108,544                |
| <b>Total Deferred Inflows of Resources</b>  | <b>5,594,617</b>       | <b>7,735,020</b>       |
| <b>NET POSITION</b>                         |                        |                        |
| Net Investment in Capital Assets            | (2,726,901)            | (2,795,032)            |
| Restricted for Emergencies                  | 295,240                | 289,312                |
| Unrestricted                                | (9,908,440)            | (12,947,088)           |
| <b>Total Net Position</b>                   | <b>\$ (12,340,101)</b> | <b>\$ (15,452,808)</b> |

The largest portion of the School's assets is in capital assets, at 58% of total assets in 2021.

**Flagstaff Academy's Change in Net Position  
Governmental Activities**

|  | <u>June 30, 2021</u>   | <u>June 30, 2020</u>   |
|--|------------------------|------------------------|
| Program Revenue:                           |                        |                        |
| Charges for Services                       | \$ 481,803             | \$ 697,889             |
| Operating Grants and Contributions         | 1,039,650              | 210,281                |
| Capital Grants and Contributions           | 235,091                | 242,460                |
| Total Program Revenue                      | <u>1,756,544</u>       | <u>1,150,630</u>       |
| General Revenue:                           |                        |                        |
| Per Pupil Revenue                          | 6,187,011              | 7,216,064              |
| Mill Levy Override                         | 1,339,582              | 1,498,988              |
| Interest                                   | 37,167                 | 65,815                 |
| Other                                      | 102,095                | 11,262                 |
| SPECIAL ITEM: PPP Loan Forgiveness         | 77,000                 | -                      |
| Total General Revenue                      | <u>7,742,855</u>       | <u>8,792,129</u>       |
| <b>Total Revenue</b>                       | <u>9,499,399</u>       | <u>9,942,759</u>       |
| Expenses:                                  |                        |                        |
| Instructional                              | 3,333,139              | 4,277,445              |
| Supporting Services                        | 2,528,320              | 3,222,883              |
| Interest and Other Fiscal Charges          | 525,233                | 503,106                |
| <b>Total Expenses</b>                      | <u>6,386,692</u>       | <u>8,003,434</u>       |
| <b>Increase/(Decrease) in Net Position</b> | 3,112,707              | 1,939,325              |
| <b>Net Position, Beginning, Restated</b>   | <u>(15,452,808)</u>    | <u>(17,392,133)</u>    |
| <b>Net Position, Ending</b>                | <u>\$ (12,340,101)</u> | <u>\$ (15,452,808)</u> |

The largest portion of the School's revenues came from Per Pupil Revenue – 65%, respectively in 2021.

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$4,520,350, an increase of \$77,794 from prior year. As of the end of the current fiscal year, the School's Building Corporation reported an ending fund balance of \$1,255,646, an increase of \$5,807 from prior year. This fund records the activity of the Flagstaff Building Corporation (the Building Corporation). The Building Corporation was formed to assist in the financing and construction of the School's facilities.

### **General Fund Budgetary Highlights**

The School approves a General Fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the School had some variances between its final budgeted and actual activities. Overall, the School recognized \$80,052 more revenue than expected and spent \$335,532 less than planned, when compared to the final budget. Two budget amendments were made during FY 2020-2021.

### **Capital Assets & Long-Term Debt**

The School has invested in capital assets in form of the school's building, building improvements, and equipment in support of the school's educational program. Depreciation expenses for capital assets are booked under Supporting Services of the School's operations.

The School has long-term debt in the form of refunding revenue bonds. During fiscal year 2015-2016, proceeds from 2016 bonds were used to advance refund 2008 revenue bonds, originally issued to construct the school's facility. The School is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee for payment of the bonds. In May 2020, the School received \$77,000 in loan proceeds from the Paycheck Protection Program (PPA). The School applied for loan forgiveness and the full amount of the loan was forgiven during the fiscal year 2020-2021.

### **Economic Factors and Next Year's Budget**

The primary factors driving the budget for Flagstaff Academy are student enrollment and Per Pupil Revenue. Enrollment for the 2020-2021 school year was 777.00 funded students. This information was analyzed as part of the 2021-2022 budget which is projecting an 807.64 funded student count. Per Pupil Revenue is expected to increase significantly in 2021-2022, after a significant decline in 2020-2021 related to the COVID-19 pandemic.

## **Requests for Information**

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

Flagstaff Academy  
2040 Miller Drive  
Longmont, CO 80501

## **BASIC FINANCIAL STATEMENTS**

FLAGSTAFF ACADEMY

STATEMENT OF NET POSITION  
As of June 30, 2021

|  | <u>GOVERNMENTAL<br/>ACTIVITIES</u> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| Cash and Investments   | \$ 4,807,715                       |
| Restricted Cash and Investments                              | 1,255,646                          |
| Due From District  | 240,641                            |
| Prepaid Expenses   | 8,162                              |
| Deposits   | 117,060                            |
| Capital Assets, Not Depreciated                              | -                                  |
| Capital Assets, Depreciated, Net of Accumulated Depreciation | <u>8,960,930</u>                   |
| <b>TOTAL ASSETS</b>  | <u>15,390,154</u>                  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                        |                                    |
| Related to Pensions  | 3,749,737                          |
| Related to OPEB  | 47,815                             |
| Deferred Charges   | <u>1,246,908</u>                   |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                  | <u>5,044,460</u>                   |
| <b>LIABILITIES</b>   |                                    |
| Accounts Payable   | 78,718                             |
| Due to District  | 22,506                             |
| Accrued Expenses   | 66,589                             |
| Accrued Salaries and Benefits                                | 452,124                            |
| Unearned Revenues  | 33,291                             |
| Accrued Interest Payable                                     | 212,870                            |
| Noncurrent Liabilities                                       |                                    |
| Due in One Year  | 265,000                            |
| Due in More than One Year                                    | 12,678,477                         |
| Net Pension Liability  | 12,901,375                         |
| Net OPEB Liability   | <u>469,148</u>                     |
| <b>TOTAL LIABILITIES</b>                                     | <u>27,180,098</u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                         |                                    |
| Related to Pensions  | 5,428,542                          |
| Related to OPEB  | <u>166,075</u>                     |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                   | <u>5,594,617</u>                   |
| <b>NET POSITION</b>  |                                    |
| Net Investment in Capital Assets                             | (2,726,901)                        |
| Restricted for Emergencies                                   | 295,240                            |
| Unrestricted   | <u>(9,908,440)</u>                 |
| <b>TOTAL NET POSITION</b>                                    | <u><u>\$ (12,340,101)</u></u>      |

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2021

| FUNCTIONS/PROGRAMS                   | EXPENSES            | PROGRAM REVENUES        |  | NET (EXPENSE)<br>REVENUE AND<br>CHANGES IN<br>NET POSITION |
|--------------------------------------|---------------------|-------------------------|--|--|
|                                      |                     | CHARGES FOR<br>SERVICES | OPERATING<br>GRANTS AND<br>CONTRIBUTIONS |  |
| PRIMARY GOVERNMENT                   |                     |                         |  |  |
| <b>Governmental Activities</b>       |                     |                         |  |  |
| Instructional                        | \$ 3,333,139        | \$ -                    | \$ 187,102                               | \$ -   |
| Supporting Services                  | 2,528,320           | 481,803                 | 852,548                                  | 235,091  |
| Interest and Other Fiscal<br>Charges | 525,233             | -                       | -  | -  |
| Total Governmental<br>Activities     | <u>\$ 6,386,692</u> | <u>\$ 481,803</u>       | <u>\$ 1,039,650</u>                      | <u>\$ 235,091</u>  |
|                                      |                     |                         | GENERAL REVENUES                         |  |
|                                      |                     |                         | Per Pupil Revenue                        | 6,187,011  |
|                                      |                     |                         | Mill Levy Override                       | 1,339,582  |
|                                      |                     |                         | Interest                                 | 37,167   |
|                                      |                     |                         | Other                                    | 102,095  |
|                                      |                     |                         | SPECIAL ITEM                             |  |
|                                      |                     |                         | PPP Loan Forgiveness                     | 77,000   |
|                                      |                     |                         | TOTAL GENERAL REVENUES                   | <u>7,742,855</u>   |
|                                      |                     |                         | CHANGE IN NET POSITION                   | 3,112,707  |
|                                      |                     |                         | NET POSITION, Beginning                  | <u>(15,452,808)</u>  |
|                                      |                     |                         | NET POSITION, Ending                     | <u>\$ (12,340,101)</u>                                     |

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2021

|                                      | GENERAL<br>FUND     | BUILDING<br>CORPORATION | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--------------------------------------|---------------------|-------------------------|--------------------------------|
| <b>ASSETS</b>                        |                     |                         |                                |
| Cash and Investments                 | \$ 4,807,715        | \$ -                    | \$ 4,807,715                   |
| Restricted Cash and Investments      | -                   | 1,255,646               | 1,255,646                      |
| Due From District                    | 240,641             | -                       | 240,641                        |
| Prepaid Expenses                     | 8,162               | -                       | 8,162                          |
| Deposits                             | 117,060             | -                       | 117,060                        |
| TOTAL ASSETS                         | <u>\$ 5,173,578</u> | <u>\$ 1,255,646</u>     | <u>\$ 6,429,224</u>            |
| <b>LIABILITIES AND FUND BALANCES</b> |                     |                         |                                |
| <b>LIABILITIES</b>                   |                     |                         |                                |
| Accounts Payable                     | \$ 78,718           | \$ -                    | \$ 78,718                      |
| Due To District                      | 22,506              | -                       | 22,506                         |
| Accrued Expenses                     | 66,589              | -                       | 66,589                         |
| Accrued Salaries                     | 452,124             | -                       | 452,124                        |
| Unearned Revenue                     | 33,291              | -                       | 33,291                         |
| TOTAL LIABILITIES                    | <u>653,228</u>      | <u>-</u>                | <u>653,228</u>                 |
| <b>FUND BALANCES</b>                 |                     |                         |                                |
| Nonspendable                         | 125,222             | -                       | 125,222                        |
| Restricted for Emergencies           | 295,240             | -                       | 295,240                        |
| Restricted for Debt Service          | -                   | 1,255,646               | 1,255,646                      |
| Unassigned                           | 4,099,888           | -                       | 4,099,888                      |
| TOTAL FUND BALANCES                  | <u>4,520,350</u>    | <u>1,255,646</u>        | <u>5,775,996</u>               |
| TOTAL LIABILITIES AND FUND BALANCES  | <u>\$ 5,173,578</u> | <u>\$ 1,255,646</u>     | <u>\$ 6,429,224</u>            |

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
Year Ended June 30, 2021

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances of governmental funds \$ 5,775,996

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

|                                 |                    |           |
|---------------------------------|--------------------|-----------|
| Capital Assets, not depreciated | -                  |           |
| Capital Assets, depreciated     | 12,947,922         |           |
| Accumulated Depreciation        | <u>(3,986,992)</u> | 8,960,930 |

Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds.

|                          |                  |              |
|--------------------------|------------------|--------------|
| Bonds Payable            | (12,943,477)     |              |
| Deferred Charges         | 1,246,908        |              |
| Accrued Interest Payable | (212,870)        |              |
| Loan Payable             | -                |              |
| Net Pension Liability    | (12,901,375)     |              |
| Net OPEB Liability       | <u>(469,148)</u> | (25,279,962) |

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

|   |                  |             |
|---|------------------|-------------|
| Deferred outflows of resources - Change in Proportionate Share            | 1,301,286        |             |
| Deferred outflows of resources - Subsequent Contributions                 | 498,513          |             |
| Deferred outflows of resources - Expected vs Actual Experience            | 708,866          |             |
| Deferred outflows of resources - Projected vs Actual Investments Earnings | -                |             |
| Deferred outflows of resources - Change in Assumptions                    | 1,241,072        |             |
| Deferred inflows of resources - Projected vs Actual Investments Earnings  | (2,839,886)      |             |
| Deferred inflows of resources - Change in Assumptions                     | (2,168,612)      |             |
| Deferred inflows of resources - Change in Proportionate Share             | <u>(420,044)</u> | (1,678,805) |

|   |                 |                  |
|---|-----------------|------------------|
| Deferred outflows of resources - Change in Proportionate Share OPEB           | 17,487          |                  |
| Deferred outflows of resources - Subsequent Contributions OPEB                | 25,578          |                  |
| Deferred outflows of resources - Expected vs Actual Experience OPEB           | 1,245           |                  |
| Deferred outflows of resources - Change in Assumptions OPEB                   | 3,505           |                  |
| Deferred outflows of resources - Projected vs actual investment earnings OPEB | -               |                  |
| Deferred inflows of resources - Projected vs actual investment earnings OPEB  | (19,170)        |                  |
| Deferred inflows of resources - Expected vs Actual Experience OPEB            | (103,141)       |                  |
| Deferred inflows of resources - Change in Assumptions OPEB                    | (28,768)        |                  |
| Deferred inflows of resources - Change in Proportionate Share OPEB            | <u>(14,996)</u> | <u>(118,260)</u> |

Net position of governmental activities \$ (12,340,101)

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2021

|                                 | GENERAL<br>FUND      | BUILDING<br>CORPORATION | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---------------------------------|----------------------|-------------------------|--------------------------------|
| REVENUES                        |                      |                         |                                |
| Local Sources                   | \$ 8,252,096         | \$ 776,887              | \$ 9,028,983                   |
| State Sources                   | 422,193              | -                       | 422,193                        |
| Federal Sources                 | 747,127              | -                       | 747,127                        |
| <br>TOTAL REVENUES              | <br><u>9,421,416</u> | <br><u>776,887</u>      | <br><u>10,198,303</u>          |
| EXPENDITURES                    |                      |                         |                                |
| Current                         |                      |                         |                                |
| Instruction                     | 5,518,904            | -                       | 5,518,904                      |
| Supporting Services             | 3,824,718            | 92                      | 3,824,810                      |
| Debt Service                    |                      |                         |                                |
| Principal                       | -                    | 255,000                 | 255,000                        |
| Interest                        | -                    | 515,988                 | 515,988                        |
| <br>TOTAL EXPENDITURES          | <br><u>9,343,622</u> | <br><u>771,080</u>      | <br><u>10,114,702</u>          |
| <br>NET CHANGE IN FUND BALANCES | <br>77,794           | <br>5,807               | <br>83,601                     |
| FUND BALANCES, Beginning        | <u>4,442,556</u>     | <u>1,249,839</u>        | <u>5,692,395</u>               |
| FUND BALANCES, Ending           | <u>\$ 4,520,350</u>  | <u>\$ 1,255,646</u>     | <u>\$ 5,775,996</u>            |

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2021

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

|  |                  |                  |                     |
|--|------------------|------------------|---------------------|
| Net change in fund balances - total governmental funds   |                  |                  | \$ 83,601           |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. |                  |                  |                     |
| Capital Outlay   | 124,236          |                  |                     |
| Depreciation   | <u>(430,293)</u> | (306,057)        |                     |
| Loan proceeds provide current financial resources in the governmental funds. However, the proceeds create additional long-term liabilities in the statement of net position.   |                  |                  | 77,000              |
| Some expenses reported in the statement of activities do not require current financial resources and are not reported in the funds.  |                  |                  |                     |
| Bond Principal Payments  | 255,000          |                  |                     |
| Changes in Accrued Interest Payable  | 4,250            |                  |                     |
| Amortization of Deferred Charges and Bond Premium  | <u>(13,495)</u>  | 245,755          |                     |
| Deferred Charges related to pensions and OPEB are not recognized in the governmental funds. However, for the government-wide statements those amounts are capitalized and amortized.   |                  |                  |                     |
| Deferred charges related to Pension Plan   | 2,978,829        |                  |                     |
| Deferred charges related to OPEB   | <u>33,579</u>    | <u>3,012,408</u> |                     |
| Change in net position of governmental activities  |                  |                  | <u>\$ 3,112,707</u> |

The accompanying notes are an integral part of the financial statements.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Flagstaff Academy (the “Academy” or the “School”) was formed in 2004 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The Academy provides students with a science-focused, liberal arts curriculum that promotes excellence, teamwork, respect, and a lifelong love of learning. The Academy is governed by a seven-member Board of Directors.

The accounting policies of the Academy conform with generally accepted accounting principles as applicable to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. Following is a summary of the more significant policies:

**Reporting Entity**

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. It is also financially accountable for legally separate organizations if the Academy’s officials appoint a voting majority for the organization’s governing body and either it is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the Academy. The Academy may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of this criteria, the Academy includes the following organizations within its reporting entity:

**Flagstaff Building Corporation**

The Flagstaff Building Corporation (the “Building Corporation”) was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the Academy’s facilities. The Building Corporation is blended into the Academy’s financial statements as a special revenue fund. Separate financial statements are not available for the Building Corporation.

The Academy is a component unit of the St. Vrain Valley School District (the “District”).

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**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 of the nonfiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of net position reports all financial, capital and debt resources of the Academy. The difference between the assets plus deferred outflows of resources and liabilities and deferred inflows of resources of the Academy is reported as net position.

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 other customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenue and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported in separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1:** **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the Academy's practice to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, the Academy reports the following major governmental funds:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *Building Corporation Fund* accounts for the activities of the Flagstaff Building Corporation.

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

Deposits and Investments – For purposes of the statement of cash flows, the Academy considers cash and cash equivalents to be all demand deposits as well as short-term investments with a maturity date of three months or less. Investments are stated at fair value.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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 – Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses. An expenditure is reported in the year in which the services are consumed.

Capital Assets – Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 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 estimated acquisition value at the date of donation.

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Property and equipment of the Academy is depreciated using the straight-line method over the following estimated useful lives.

|                            |            |
|----------------------------|------------|
| Buildings and Improvements | 40 years   |
| Leasehold Improvements     | 7-30 years |
| Equipment                  | 7-15 years |

Unearned Revenues – The deferred revenues include amounts received but not yet available for expenditure.

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, as of June 30, 2021, were \$452,124. The accrued compensation is reported as a liability in the General Fund.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Long-Term Debt – In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Compensated Absences – The Academy’s policy allows employees to earn personal leave of absence during the year. Upon termination, no unused personal leave of absence days is paid to the employee. Therefore, no liability is recorded in the Academy’s government-wide statement of net position.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Net Position– The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Position are liquid assets, which have third party limitations on their use.

Unrestricted Net Position represents assets that do not have any third-party limitation on their use. While Academy management may have categorized and segmented portion for various purposes, the Academy Board has the unrestricted right to revisit or alter these managerial decisions.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Academy considers prepaid expenses and deposits as nonspendable.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The Academy also reports the fund balance in the Building Corporation Fund as restricted as required by bond covenants.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2021.
- Assigned – This classification includes amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The Academy did not have any assigned resources as of June 30, 2021.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balance.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Risk Management**

The Academy 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 Academy carries commercial insurance for all risks of loss for property and liability and workman's compensation. . The Academy is fully self-insured for unemployment compensation.

**Income Taxes**

The Academy is a tax-exempt entity under section 501 (c) 3 of the US Internal Revenue Code. The Academy's tax filings are subject to audit by various taxing authorities. The Academy believes it has no significant uncertain tax provisions for the year ended June 30, 2021.

**Subsequent Events**

The Academy has evaluated events subsequent to the year ended June 30, 2021 through October 29, 2021, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets**

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

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

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 3: CASH AND INVESTMENTS**

Cash and Investments at June 30, 2021 consist of the following:

|             |                     |
|-------------|---------------------|
| Deposits    | \$ 3,383,038        |
| Investments | <u>2,680,323</u>    |
| Total       | <u>\$ 6,063,361</u> |

The above amounts are classified in the statement of net position as follows

|                                     |                     |
|-------------------------------------|---------------------|
| Cash and Investments - Unrestricted | \$ 4,807,715        |
| Cash and Investments - Restricted   | <u>1,255,646</u>    |
|                                     | <u>\$ 6,063,361</u> |

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2021 State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

Credit Risk

The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 3:** **CASH AND INVESTMENTS** (Continued)

**Deposits** (Continued)

At June 30, 2021, the Academy had deposits with financial institutions with a carrying amount of \$3,383,038. The bank balances with the financial institutions were \$3,525,679. Of these balances, \$1,000,000 was covered by federal depository insurance and \$2,525,679 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Custodial Risk

The Academy has no policy regarding custodial credit risk for deposits.

**Investments**

Interest Rate Risk

The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Investments** (Continued)

As of June 30, 2021, the Academy reports the following investments:

|                          | Fair Value          | Investment<br>Maturity (Years) |                      |
|--------------------------|---------------------|--------------------------------|----------------------|
|                          |                     | Less Than<br>One Year          | One To<br>Five Years |
| Money Market Mutual Fund | \$ 578,078          | \$ 578,078                     | \$ -                 |
| CSAFE                    | 1,255,647           | 1,255,647                      | -                    |
| CSIP                     | <u>846,598</u>      | <u>846,598</u>                 | <u>-</u>             |
| Total                    | <u>\$ 2,680,323</u> | <u>\$ 2,680,323</u>            | <u>\$ -</u>          |

Local Government Investment Pools

The Academy had invested \$1,255,647 and \$846,598 in the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado Statewide Investment Pool (CSIP), respectively. CSAFE and CSIP are investment vehicles established for local government entities in Colorado pursuant to Title 24, Article 75, Part 7 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. The State Securities Commissioner administers and enforces the requirements of creating and operating the Pools. CSAFE and CSIP report their underlying investments at amortized cost and are considered a qualifying external investment pool under GASB Statement 79. CSAFE and CSIP operate similar to money market funds where each share is equal in value to \$1.00. The fair value of the position in the pools is the same as the value of the pooled shares.

CSAFE and CSIP are rated AAAM by Standard and Poor's. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities are owned by the pools and held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pools. Investments of the pools comply with state statutes, consisting of U.S. Treasury bills, notes and note strips, repurchase agreements, U.S. Instrumentalities, Commercial Paper, Bank Deposits and Money Market Funds. CSAFE and CSIP do not have any limitations or restrictions on participant withdrawals.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 3:** **CASH AND INVESTMENTS** (Continued)

**Investments** (Continued)

Fair Value

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The Academy follows State of Colorado's statute which limits investments in money market funds to those with the highest rating issued by NRSRO's and with a constant share price, or to money market funds that invest only in specific securities.

The Academy invested \$578,078 in a Money Market Mutual Fund. This Fund invests primarily in U.S Treasury Debt and U.S. Government Agency Debt and is rated AAAM by S&P and Aaa-mf by Moody's. These investments are valued using Level 1 inputs.

**Restricted Cash**

At June 30, 2021, cash in the amount of \$1,255,646 is restricted in the Building Corporation Fund for debt payment requirements.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 4: CAPITAL ASSETS**

Capital Asset activity for the year ended June 30, 2021 is summarized below:

|                                | Balance<br>6/30/2020 | Additions           | Deletions   | Balance<br>6/30/2021 |
|--------------------------------|----------------------|---------------------|-------------|----------------------|
| <b>Governmental Activities</b> |                      |                     |             |                      |
| Capital Asset, Being           |                      |                     |             |                      |
| Depreciated                    |                      |                     |             |                      |
| Buildings                      | \$ 11,633,592        | \$ -                | \$ -        | \$ 11,633,592        |
| Leasehold Improvements         | 744,869              | 32,939              | -           | 777,808              |
| Equipment                      | 445,225              | 91,297              | -           | 536,522              |
| Total Capital Assets,          |                      |                     |             |                      |
| Being Depreciated              | <u>12,823,686</u>    | <u>124,236</u>      | <u>-</u>    | <u>12,947,922</u>    |
| Accumulated Depreciation       |                      |                     |             |                      |
| Buildings                      | 3,076,390            | 326,970             | -           | 3,403,360            |
| Leasehold Improvements         | 289,772              | 62,301              | -           | 352,073              |
| Equipment                      | 190,537              | 41,022              | -           | 231,559              |
| Total Depreciation             | <u>3,556,699</u>     | <u>430,293</u>      | <u>-</u>    | <u>3,986,992</u>     |
| Total Capital Assets,          |                      |                     |             |                      |
| Being Depreciated, Net         | <u>9,266,987</u>     | <u>(306,057)</u>    | <u>-</u>    | <u>8,960,930</u>     |
| Net Capital Assets             | <u>\$ 9,266,987</u>  | <u>\$ (306,057)</u> | <u>\$ -</u> | <u>\$ 8,960,930</u>  |

Depreciation has been charged to the Supporting Services program of the Academy.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 5: LONG-TERM DEBT**

The following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2021:

|                       | Balance<br><u>6/30/2020</u> | <u>Additions</u>    | <u>Payments</u>   | Balance<br><u>6/30/2021</u> | Due In<br><u>One Year</u> |
|-----------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------------|
| Series 2016 Refunding |                             |                     |                   |                             |                           |
| Revenue Bonds         | \$12,580,000                | \$ -                | \$ 255,000        | \$12,325,000                | \$ 265,000                |
| 2016 Bond Premium     | 654,858                     | -                   | 36,381            | 618,477                     | -                         |
| PPP Loan Payable      | 77,000                      | -                   | 77,000            | -                           | -                         |
| Net Pension Liability | 11,536,537                  | 1,364,838           | -                 | 12,901,375                  | -                         |
| Net OPEB Liability    | 567,158                     | -                   | 98,010            | 469,148                     | -                         |
| Total                 | <u>\$25,415,553</u>         | <u>\$ 1,364,838</u> | <u>\$ 466,391</u> | <u>\$26,314,000</u>         | <u>\$ 265,000</u>         |

**2016 Charter School Refunding Revenue Bonds**

In June 2016, the Colorado Educational and Facilities Authority (CECFA) issued \$13,335,000 in Charter School Revenue Bonds, Series 2016. Proceeds from the bonds were used to advance refund the Academy's 2008 Revenue Bonds.

Interest accrues at rates ranging from 3.00% to 5.00% per year. The bonds mature in August 2046.

The Academy is obligated to make monthly lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee for payment of the bonds.

The bonds have been secured by a pledge of certain rights to real estate property located in Longmont Colorado ("pledged property") and a pledge of the Academy's funds and revenues.

In the event of default, the bond trustee may take remedial steps including giving writing notice to declare the principal amount of all the bonds outstanding and the interest accrued thereon to become immediately due and payable.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 5:** **LONG-TERM DEBT** (Continued)

Covenants

Under the terms of the bond agreements, the Academy is required to maintain days cash on hand of not less than 45 days. In addition, the Academy is required to maintain cumulative unrestricted cash reserves to meet all accrued and unrestricted salary obligations.

At June 30, 2021, the Academy reports sufficient cash on hand to comply with these bond covenants.

Future debt service requirements on the bonds are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u>            | <u>Interest</u>             | <u>Total</u>                |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2022                       | \$ 265,000                  | \$ 505,588                  | \$ 770,588                  |
| 2023                       | 275,000                     | 494,788                     | 769,788                     |
| 2024                       | 285,000                     | 483,588                     | 768,588                     |
| 2025                       | 295,000                     | 471,988                     | 766,988                     |
| 2026                       | 310,000                     | 459,888                     | 769,888                     |
| 2027-2031                  | 1,755,000                   | 2,071,504                   | 3,826,504                   |
| 2032-2036                  | 2,235,000                   | 1,577,062                   | 3,812,062                   |
| 2037-2041                  | 2,800,000                   | 1,009,299                   | 3,809,299                   |
| 2042-2046                  | 3,360,000                   | 448,186                     | 3,808,186                   |
| 2047                       | 745,000                     | 13,639                      | 758,639                     |
|                            | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total                      | <u>\$12,325,000</u>         | <u>\$ 7,535,530</u>         | <u>\$19,860,530</u>         |

**PPP Loan Payable**

In May 2020, the Academy entered into a loan agreement with First Bank to receive funding under the Paycheck Protection Program (PPP). As part of the Coronavirus Relief Effort, the Small Business Administration (SBA) has provided PPP funds to small businesses to keep workers on the payroll. The Academy applied and received \$77,000 under this program.

The loan carried an interest rate of 1% which started accruing when the funds were made available to the Academy. When the SBA began accepting applications, the Academy applied for loan forgiveness. The full amount of the loan was forgiven during the year ended June 30, 2021.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

*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/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. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 made changes to certain benefit provisions. Most of these changes were in effect as of June 30, 2021.

**General Information about the Pension Plan**

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

*Benefits provided as of December 31, 2020.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6:** **DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

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

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

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

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

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

As of December 31, 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 membership before January 1, 2007, and all eligible 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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6:** **DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

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 disability. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

*Contributions provisions as of June 30, 2021:* Eligible employees of the School and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 10.00 percent of their PERA-includable salary during the period of July 1, 2020 through June 30, 2021. Employer contribution requirements are summarized in the table below:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information about the Pension Plan (Continued)**

|  | July 1, 2020<br>Through<br>June 30, 2021 |
|--|--|
| Employer contribution rate   | 10.90%                                   |
| Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) | (1.02)%                                  |
| Amount apportioned to the SCHDTF   | 9.88%                                    |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411                                    | 4.50%                                    |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-                         | 5.50%                                    |
| <b>Total employer contribution rate to the SCHDTF</b>  | <b>19.88%</b>                            |

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

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million (actual dollars) 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.

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 \$939,604 for the year ended June 30, 2021.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

The net pension liability for the SCHDTF was measured as of December 31, 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's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2020 relative to the total contributions of participating employers and the 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 \$12,901,375 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 the net pension liability  | \$12,901,375 |
| The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School | \$-0-        |
| Total  | \$12,901,375 |

At December 31, 2020, the School's proportion was 0.08534 percent, which was an increase of 0.0081% from its proportion measured as of December 31, 2019.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

For the year ended June 30, 2021, the School recognized pension expense of (\$2,978,829) and revenue of \$-0- for support from the State as a nonemployer contributing entity. At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$708,866                                 | N/A                                      |
| Changes of assumptions or other inputs  | \$1,241,072                               | \$2,168,612                              |
| Net difference between projected and actual earnings on pension plan investments                                | N/A                                       | \$2,839,886                              |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | \$1,301,286                               | \$420,044                                |
| Contributions subsequent to the measurement   | \$498,513                                 | N/A                                      |
| Total   | \$3,749,737                               | \$5,428,542                              |

\$498,513 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year ended June 30:</b> |               |
|----------------------------|---------------|
| 2022                       | (\$2,092,514) |
| 2023                       | \$680,196     |
| 2024                       | (\$316,992)   |
| 2025                       | (\$448,008)   |

*Actuarial assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

|   |                     |
|---|---------------------|
| Actuarial cost method   | Entry age           |
| Price inflation   | 2.40%               |
| Real wage growth  | 1.10%               |
| Wage inflation  | 3.50%               |
| Salary increases, including wage inflation  | 3.50%–9.70%         |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25%               |
| Discount rate   | 7.25%               |
| Post-retirement benefit increases:  |                     |
| PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (compounded annually)            | 1.25%               |
| PERA benefit structure hired after 12/31/06 <sup>1</sup>  | Financed by the AIR |

<sup>1</sup> Post-retirement benefit increases are provided by the AIR, accounted separately within each Division Trust Fund, and subject to moneys being available; therefore, liabilities related to increases for members of these benefit tiers can never exceed available assets.

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, 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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

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 PERA's Board during the November 18, 2016, Board meeting.

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   | 2.30%               |
| Real wage growth  | 0.70%               |
| Wage inflation  | 3.00%               |
| Salary increases, including wage inflation:   | 3.40%-11.00%        |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25%               |
| Discount rate   | 7.25%               |
| Post-retirement benefit increases:  |                     |
| PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (compounded annually)            | 1.25%               |
| PERA benefit structure hired after 12/31/06 <sup>1</sup>  | Financed by the AIR |

<sup>1</sup>Post-retirement benefit increases are provided by the AIR, accounted separately within each Division Trust Fund, and subject to moneys being available; therefore, liabilities related to increases for members of these benefit tiers can never exceed available assets.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6:** **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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.
- **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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6:** **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

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

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

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:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

| 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 <sup>1</sup> | 6.00%             | 4.70%  |
| <b>Total</b>              | <b>100.00%</b>    |  |

<sup>1</sup>The Opportunity Fund's name changed to Alternatives, effective January 1, 2020.

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 pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00 percent.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

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 position 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 rate 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.

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

|  | 1% Decrease<br>(6.25%) | Current Discount<br>Rate (7.25%) | 1% Increase<br>(8.25%) |
|--|------------------------|----------------------------------|------------------------|
| Proportionate share of the net pension liability | \$17,598,532           | \$12,901,375                     | \$8,987,095            |

*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](http://www.copera.org/investments/pera-financial-reports).

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN**

**Summary of Significant Accounting Policies**

*OPEB.* The School participates The School 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/deductions from the FNP of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the OPEB Plan**

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)**

**General Information about the OPEB Plan (Continued)**

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

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

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

*PERA Benefit Structure*

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)**

**General Information about the OPEB Plan (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 C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$48,209 for the year ended June 30, 2021.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (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 \$469,148 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of 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 2020 relative to the total contributions of participating employers to the HCTF.

At December 31, 2020, the proportion was 0.04937 percent, which was a decrease of 0.0011% from its proportion measured as of December 31, 2019.

For the year ended June 30, 2021, the School recognized OPEB expense of (\$33,579). At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | <u>Deferred Outflows of<br/>Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$1,245                                   | \$103,141                                |
| Changes of assumptions or other inputs  | 3,505                                     | 28,768                                   |
| Net difference between projected and actual earnings on OPEB plan investments                                   | N/A                                       | 19,170                                   |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 17,487                                    | 14,996                                   |
| Contributions subsequent to the measurement date  | 25,578                                    | N/A                                      |
| <b>Total</b>  | <b>\$47,815</b>                           | <b>\$166,075</b>                         |

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

\$25,578 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <b>Year ended June 30:</b> |            |
|----------------------------|------------|
| 2022                       | (\$30,533) |
| 2023                       | (27,851)   |
| 2024                       | (34,229)   |
| 2025                       | (35,511)   |
| 2026                       | (14,757)   |
| 2027                       | (957)      |

*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:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)**

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

|  |  |
|--|--|
| Actuarial cost method  | Entry age  |
| Price inflation  | 2.40%  |
| Real wage growth   | 1.10%  |
| Wage inflation   | 3.50%  |
| Salary increases, including wage inflation   | 3.50% in aggregate                                   |
| Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation | 7.25%  |
| Discount rate  | 7.25%  |
| Health care cost trend rates   |  |
| PERA benefit structure:  |  |
| Service-based premium subsidy  | 0.00%  |
| PERACare Medicare plans  | 8.10% in 2020, gradually decreasing to 4.50% in 2029 |
| Medicare Part A premiums   | 3.50% in 2020, gradually increasing to 4.50% in 2029 |
| DPS benefit structure:   |  |
| Service-based premium subsidy  | 0.00%  |
| PERACare Medicare plans  | N/A  |
| Medicare Part A premiums   | N/A  |

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

| Medicare Plan   | Initial Costs for Members<br>without Medicare Part A |                    | Monthly<br>Cost<br>Adjusted |
|---|--|--------------------|-----------------------------|
|   | Monthly<br>Cost                                      | Monthly<br>Premium |                             |
| Medicare<br>Advantage/Self-Insured<br>Kaiser Permanente | \$588  | \$227              | \$550                       |
| Medicare Advantage                                      | 621  | 232                | 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.

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

| Year  | PERACare<br>Medicare | Medicare<br>Part A |
|-------|----------------------|--------------------|
| 2020  | 8.10%                | 3.50%              |
| 2021  | 6.40%                | 3.75%              |
| 2022  | 6.00%                | 3.75%              |
| 2023  | 5.70%                | 3.75%              |
| 2024  | 5.50%                | 4.00%              |
| 2025  | 5.30%                | 4.00%              |
| 2026  | 5.10%                | 4.00%              |
| 2027  | 4.90%                | 4.25%              |
| 2028  | 4.70%                | 4.25%              |
| 2029+ | 4.50%                | 4.50%              |

Mortality assumptions 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 were applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Post-retirement non-disabled mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

|   | <b>Trust Fund</b>         |                            |  |                              |
|---|---------------------------|----------------------------|--|------------------------------|
|   | <b>State<br/>Division</b> | <b>School<br/>Division</b> | <b>Local<br/>Government<br/>Division</b> | <b>Judicial<br/>Division</b> |
| Actuarial cost method                       | Entry age                 | Entry age                  | Entry age                                | Entry age                    |
| Price inflation                             | 2.30%                     | 2.30%                      | 2.30%                                    | 2.30%                        |
| Real wage growth                            | 0.70%                     | 0.70%                      | 0.70%                                    | 0.70%                        |
| Wage inflation                              | 3.00%                     | 3.00%                      | 3.00%                                    | 3.00%                        |
| Salary increases, including wage inflation: |                           |                            |  |                              |
| Members other than State Troopers           | 3.30%-10.90%              | 3.40%-11.00%               | 3.20%-11.30%                             | 2.80%-5.30%                  |
| State Troopers                              | 3.20%-12.40%              | N/A                        | 3.20%-12.40% <sup>1</sup>                | N/A                          |

<sup>1</sup> C.R.S. § 24-51-101 (46), as amended, expanded the definition of “State Troopers” to include certain employees within the Local Government Division, effective January 1, 2020. See Note 4 of the Notes to the Financial Statements in PERA’s 2020 Annual Report for more information.

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

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

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

Pre-retirement mortality assumptions for the State and Local Government Divisions (Members other than State Troopers) were based upon the PubG-2010 Employee Table with generational projection using scale MP-2019.

Pre-retirement mortality assumptions for State Troopers were based upon the PubS-2010 Employee Table with generational projection using scale MP-2019.

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)**

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

Pre-retirement mortality assumptions for the Judicial Division were based upon the PubG-2010(A) Above-Median Employee Table with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for the State and Local Government Divisions (Members other than State Troopers) were based upon the PubG-2010 Healthy Retiree Table, adjusted as follows:

- **Males:** 94 percent of the rates prior to age 80 and 90 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.
- **Females:** 87 percent of the rates prior to age 80 and 107 percent of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for State Troopers were based upon the unadjusted PubS-2010 Healthy Retiree 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.

Post-retirement non-disabled mortality assumptions for the Judicial Division were based upon the unadjusted PubG-2010(A) Above-Median Healthy Retiree Table 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:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

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

Disabled mortality assumptions 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.

Disabled mortality assumptions for State Troopers were based upon the unadjusted PubS-2010 Disabled Retiree Table 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:

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (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 in the table as follows:

| <b>Asset Class</b>        | <b>Target Allocation</b> | <b>30 Year Expected Geometric Real Rate of Return</b> |
|---------------------------|--------------------------|---|
| 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 <sup>1</sup> | 6.00%                    | 4.70%   |
| <b>Total</b>              | <b>100.00%</b>           |   |

<sup>1</sup>The Opportunity Fund's name changed to Alternatives, effective January 1, 2020.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

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.

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

|                       | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|-----------------------|----------------------------|---------------------|----------------------------|
| Initial PERACare      | 7.10%                      | 8.10%               | 9.10%                      |
| Ultimate PERACare     | 3.50%                      | 4.50%               | 5.50%                      |
| Initial Medicare Part | 2.50%                      | 3.50%               | 4.50%                      |
| Ultimate Medicare     | 3.50%                      | 4.50%               | 5.50%                      |
| Net OPEB Liability    | \$457,022                  | \$469,148           | \$483,264                  |

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 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 percent.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 7: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN** (Continued)

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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

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

|  | 1% Decrease<br>(6.25%) | Current Discount<br>Rate (7.25%) | 1% Increase<br>(8.25%) |
|--|------------------------|----------------------------------|------------------------|
| Proportionate share of<br>the net OPEB liability | \$537,418              | \$469,148                        | \$410,817              |

*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](http://www.copera.org/investments/pera-financial-reports).

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

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

**Employee Health Benefits**

In December 2018, the Academy entered into an agreement with UMR to provide health and dental insurance benefits to its employees. Under the plan, the Academy self-insures employee health claims up to \$25,000. The Academy purchased a stop loss insurance policy to cover individual health claims in excess of \$45,000 and aggregate total yearly claims in excess of \$396,014.

The Academy deposited \$116,070 with the insurer to serve as collateral for claim payments.

Changes in the Academy's claims liability amount for the year ended June 30, 2021 is as follows:

|      | Beginning of<br>the Year<br>Liability | Claims     | Claims Paid | End of Year<br>Liability |
|------|---------------------------------------|------------|-------------|--------------------------|
| 2021 | \$ 117,872                            | \$ 221,835 | \$ 273,118  | \$ 66,589                |

**Tabor Amendment**

In November 1992, Colorado voters passed an amendment to the State Constitution, Article X, Section 20 (the "Tabor Amendment"), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government.

The Tabor Amendment is complex and subject to judicial interpretations. The Academy believes it has complied with the Amendment.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

**NOTE 8:**      **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment** (Continued)

The Academy has established a reserve, representing 3% of qualifying expenditures, as required by the Amendment. At June 30, 2021, the emergency reserve of \$295,240 was reported as a restriction of net position and fund balance in the Governmental Activities and General Fund, respectively.

**NOTE 9:**      **DEFICIT NET POSITION**

The net position of the governmental activities is in a deficit position in the amount of \$12,340,101 due to the Academy including its Net Pension Liability and Net OPEB liability per the requirements of GASB Statement Nos. 68 and 75.

**NOTE 10:**    **SUBSEQUENT EVENT**

**COVID19 Pandemic**

As a result of the coronavirus pandemic, economic uncertainties may continue to have a significant impact on the financial position, results of operations, and cashflows of the School. The duration of these uncertainties and the ultimate financial effects cannot be estimated at this time.

**REQUIRED SUPPLEMENTARY INFORMATION**

FLAGSTAFF ACADEMY

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2021

|   | ORIGINAL<br>BUDGET  | FINAL<br>BUDGET     | ACTUAL              | VARIANCE<br>Positive<br>(Negative) | 2020<br>ACTUAL      |
|---|---------------------|---------------------|---------------------|------------------------------------|---------------------|
| <b>REVENUES</b>   |                     |                     |                     |                                    |                     |
| Local Sources   |                     |                     |                     |                                    |                     |
| Per Pupil Revenue                                       | \$ 6,654,468        | \$ 6,187,035        | \$ 6,187,011        | \$ (24)                            | \$ 7,216,064        |
| Mill Levy Override                                      | 1,498,988           | 1,339,582           | 1,339,582           | -                                  | 1,498,988           |
| Tuition and Fees  | 703,505             | 413,000             | 481,803             | 68,803                             | 697,889             |
| Contributions   | 65,000              | 100,000             | 105,421             | 5,421                              | 77,815              |
| Interest  | 40,000              | 35,000              | 36,184              | 1,184                              | 49,229              |
| Other   | 7,000               | 100,000             | 102,095             | 2,095                              | 11,262              |
| State Sources   |                     |                     |                     |                                    |                     |
| Capital Construction                                    | 228,960             | 235,091             | 235,091             | -                                  | 242,460             |
| Grants and Donations                                    | 43,129              | 185,173             | 187,102             | 1,929                              | 178,751             |
| Federal Sources   |                     |                     |                     |                                    |                     |
| Grants and Donations                                    | -                   | 746,483             | 747,127             | 644                                | -                   |
| <b>TOTAL REVENUES</b>                                   | <b>9,241,050</b>    | <b>9,341,364</b>    | <b>9,421,416</b>    | <b>80,052</b>                      | <b>9,972,458</b>    |
| <b>EXPENDITURES</b>                                     |                     |                     |                     |                                    |                     |
| Instruction   |                     |                     |                     |                                    |                     |
| Salaries  | 3,490,489           | 4,498,028           | 3,682,225           | 815,803                            | 3,591,481           |
| Employee Benefits                                       | 1,288,465           | 1,641,955           | 1,166,445           | 475,510                            | 1,213,444           |
| Purchased Services                                      | 413,722             | 217,455             | 239,351             | (21,896)                           | 295,254             |
| Supplies and Materials                                  | 290,525             | 202,000             | 290,782             | (88,782)                           | 176,486             |
| Property  | 92,473              | 142,500             | 139,523             | 2,977                              | 166,864             |
| Other   | 50,000              | 50,000              | 578                 | 49,422                             | -                   |
| <b>Total Instruction</b>                                | <b>5,625,674</b>    | <b>6,751,938</b>    | <b>5,518,904</b>    | <b>1,233,034</b>                   | <b>5,443,529</b>    |
| Supporting Services                                     |                     |                     |                     |                                    |                     |
| Salaries  | 1,313,171           | 624,310             | 1,392,594           | (768,284)                          | 1,412,296           |
| Employee Benefits                                       | 615,386             | 256,399             | 532,256             | (275,857)                          | 737,348             |
| Purchased Services                                      | 1,661,730           | 1,830,733           | 1,757,418           | 73,315                             | 1,659,192           |
| Supplies and Materials                                  | 101,742             | 185,000             | 100,754             | 84,246                             | 217,378             |
| Property  | -                   | -                   | -                   | -                                  | -                   |
| Other   | 30,111              | 30,774              | 41,696              | (10,922)                           | 27,736              |
| <b>Total Supporting Services</b>                        | <b>3,722,140</b>    | <b>2,927,216</b>    | <b>3,824,718</b>    | <b>(897,502)</b>                   | <b>4,053,950</b>    |
| <b>TOTAL EXPENDITURES</b>                               | <b>9,347,814</b>    | <b>9,679,154</b>    | <b>9,343,622</b>    | <b>335,532</b>                     | <b>9,497,479</b>    |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | <b>(106,765)</b>    | <b>(337,790)</b>    | <b>77,794</b>       | <b>415,584</b>                     | <b>474,979</b>      |
| <b>OTHER FINANCING SOURCES</b>                          |                     |                     |                     |                                    |                     |
| Proceeds from PPP Loan                                  | -                   | -                   | -                   | -                                  | 77,000              |
| Transfer In   | -                   | -                   | -                   | -                                  | 74,838              |
| <b>TOTAL OTHER FINANCING SOURCES</b>                    | <b>-</b>            | <b>-</b>            | <b>-</b>            | <b>-</b>                           | <b>151,838</b>      |
| <b>NET CHANGE IN FUND BALANCE</b>                       | <b>(106,765)</b>    | <b>(337,790)</b>    | <b>77,794</b>       | <b>415,584</b>                     | <b>626,817</b>      |
| <b>FUND BALANCE, Beginning</b>                          | <b>4,442,556</b>    | <b>4,442,556</b>    | <b>4,442,556</b>    | <b>-</b>                           | <b>3,815,739</b>    |
| <b>FUND BALANCE, Ending</b>                             | <b>\$ 4,335,792</b> | <b>\$ 4,104,766</b> | <b>\$ 4,520,350</b> | <b>\$ 415,584</b>                  | <b>\$ 4,442,556</b> |

See the accompanying independent auditor's report.

FLAGSTAFF ACADEMY

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PERA SCHOOL DIVISION TRUST FUND PENSION PLAN

Years Ended December 31,

|   | 2020          | 2019          | 2018          | 2017          | 2016          | 2015          | 2014          | 2013          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Proportion of the Net Pension Liability (Asset)   | 0.08534%      | 0.07722%      | 0.07815%      | 0.08646%      | 0.08383%      | 0.07917%      | 0.07801%      | 0.08246%      |
| Proportionate Share of the Net Pension Liability (Asset)                                | \$ 12,901,375 | \$ 11,536,537 | \$ 13,837,483 | \$ 27,957,700 | \$ 24,960,409 | \$ 12,108,223 | \$ 10,572,687 | \$ 10,517,371 |
| State of Colorado Proportionate Share of the Net Pension Liability (Asset)              | -             | 1,463,263     | 1,892,084     | -             | -             | -             | -             | -             |
| Total Proportionate Share of the Net Pension Liability (Asset)                          | 12,901,375    | 11,536,537    | 13,837,483    | 27,957,700    | 24,960,409    | 12,108,223    | 10,572,687    | 10,517,371    |
| Covered payroll   | \$ 4,565,654  | \$ 4,537,029  | \$ 4,146,070  | \$ 3,988,240  | \$ 3,762,587  | \$ 3,450,134  | \$ 3,302,791  | \$ 3,304,112  |
| Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 282.6%        | 254.3%        | 333.7%        | 701.0%        | 663.4%        | 350.9%        | 320.1%        | 318.3%        |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability              | 66.99%        | 64.52%        | 57.01%        | 43.96%        | 43.10%        | 59.20%        | 62.80%        | 64.10%        |

NOTE: Information for the prior two years was not available for this report

See the accompanying independent auditor's report.

FLAGSTAFF ACADEMY

SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS  
PERA SCHOOL DIVISION TRUST FUND PENSION PLAN

Years Ended June 30,

|   | 2021         | 2020         | 2019         | 2018         | 2017         | 2016         | 2015         | 2014         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contributions                                  | \$ 939,604   | \$ 907,586   | \$ 836,831   | \$ 783,010   | \$ 754,969   | \$ 700,310   | \$ 592,106   | \$ 561,873   |
| Contributions in Relation to the Contractually Required Contributions | 939,604      | 907,586      | 836,831      | 783,010      | 754,969      | 700,310      | 592,106      | 561,873      |
| Contribution Deficiency (Excess)                                      | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Covered payroll   | \$ 4,726,380 | \$ 4,683,101 | \$ 4,374,442 | \$ 4,146,070 | \$ 3,891,177 | \$ 3,632,719 | \$ 3,308,026 | \$ 3,292,075 |
| Contributions as a Percentage of Covered Payroll                      | 19.88%       | 19.38%       | 19.13%       | 18.89%       | 19.40%       | 19.28%       | 17.90%       | 17.07%       |

NOTE: Information for the prior two years was not available for this report.

See the accompanying independent auditor's report.

FLAGSTAFF ACADEMY

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
PERA HEALTH CARE TRUST FUND PLAN

Years Ended December 31,

|  | 2020        | 2019        | 2018        | 2017        | 2016        |
|--|-------------|-------------|-------------|-------------|-------------|
| Proportion of the Net OPEB Liability (Asset)   | 0.49370%    | 0.05046%    | 0.05080%    | 0.04913%    | 0.04765%    |
| Proportionate Share of the Net OPEB Liability (Asset)                                | \$ 469,148  | \$ 567,158  | \$ 691,103  | \$ 638,435  | \$ 617,816  |
| Covered payroll  | \$4,565,654 | \$4,537,029 | \$4,146,070 | \$3,988,240 | \$3,762,587 |
| Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 10.3%       | 12.5%       | 16.7%       | 16.0%       | 16.4%       |
| Plan Fiduciary Net position as a Percentage of the Total OPEB Liability              | 32.78%      | 24.49%      | 17.03%      | 17.53%      | 16.72%      |

NOTE: Information for the prior five years was not available for this report.

See the accompanying independent auditor's report.

FLAGSTAFF ACADEMY

SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS  
PERA HEALTH CARE TRUST FUND PLAN

Years Ended June 30,

|  | 2021         | 2020         | 2019         | 2018         | 2017         |
|--|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contributions                                     | \$ 48,209    | \$ 47,768    | \$ 44,619    | \$ 42,290    | \$ 39,690    |
| Contributions in Relation to the<br>Contractually Required Contributions | 48,209       | 47,768       | 44,619       | 42,290       | 39,690       |
| Contribution Deficiency (Excess)   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Covered payroll  | \$ 4,726,380 | \$ 4,683,101 | \$ 4,374,442 | \$ 4,146,070 | \$ 3,891,177 |
| Contributions as a Percentage of<br>Covered Payroll                      | 1.02%        | 1.02%        | 1.02%        | 1.02%        | 1.02%        |

NOTE: Information for the prior five years was not available for this report.

See the accompanying independent auditor's report.

**SUPPLEMENTARY INFORMATION**

FLAGSTAFF ACADEMY

COMBINING BALANCE SHEET  
 GENERAL FUND  
 Year Ended June 30, 2021

|  | GENERAL<br>FUND     | PRESCHOOL<br>FUND | STUDENT<br>ACTIVITIES<br>FUND | TOTAL               |
|--|---------------------|-------------------|-------------------------------|---------------------|
| <b>ASSETS</b>                              |                     |                   |                               |                     |
| Cash and Investments                       | \$ 4,807,715        | \$ -              | \$ -                          | \$ 4,807,715        |
| Due From District                          | 240,641             | -                 | -                             | 240,641             |
| Prepaid Expenses                           | 8,162               | -                 | -                             | 8,162               |
| Deposits                                   | 117,060             | -                 | -                             | 117,060             |
| <b>TOTAL ASSETS</b>                        | <b>\$ 5,173,578</b> | <b>\$ -</b>       | <b>\$ -</b>                   | <b>\$ 5,173,578</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                   |                               |                     |
| <b>LIABILITIES</b>                         |                     |                   |                               |                     |
| Accounts Payable                           | \$ 78,718           | \$ -              | \$ -                          | \$ 78,718           |
| Due To District                            | 22,506              | -                 | -                             | 22,506              |
| Accrued Expenses                           | 66,589              | -                 | -                             | 66,589              |
| Accrued Salaries                           | 452,124             | -                 | -                             | 452,124             |
| Unearned Revenue                           | 33,291              | -                 | -                             | 33,291              |
| <b>TOTAL LIABILITIES</b>                   | <b>653,228</b>      | <b>-</b>          | <b>-</b>                      | <b>653,228</b>      |
| <b>FUND BALANCES</b>                       |                     |                   |                               |                     |
| Nonspendable                               | 125,222             | -                 | -                             | 125,222             |
| Restricted for Emergencies                 | 295,240             | -                 | -                             | 295,240             |
| Unassigned                                 | 4,099,888           | -                 | -                             | 4,099,888           |
| <b>TOTAL FUND BALANCES</b>                 | <b>4,520,350</b>    | <b>-</b>          | <b>-</b>                      | <b>4,520,350</b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 5,173,578</b> | <b>\$ -</b>       | <b>\$ -</b>                   | <b>\$ 5,173,578</b> |

See the accompanying independent auditor's report.

FLAGSTAFF ACADEMY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GENERAL FUND  
Year Ended June 30, 2021

|                            | GENERAL<br>FUND     | GRANT<br>FUND  | STUDENT<br>ACTIVITIES<br>FUND | TOTAL               |
|----------------------------|---------------------|----------------|-------------------------------|---------------------|
| REVENUES                   |                     |                |                               |                     |
| Local Sources              | \$ 7,890,865        | \$ -           | \$ 361,231                    | \$ 8,252,096        |
| State Sources              | 187,102             | 235,091        | -                             | 422,193             |
| Federal Sources            | 747,127             | -              | -                             | 747,127             |
| TOTAL REVENUES             | <u>8,825,094</u>    | <u>235,091</u> | <u>361,231</u>                | <u>9,421,416</u>    |
| EXPENDITURES               |                     |                |                               |                     |
| Current                    |                     |                |                               |                     |
| Instruction                | 5,162,738           | -              | 356,166                       | 5,518,904           |
| Supporting Services        | 3,584,562           | 235,091        | 5,065                         | 3,824,718           |
| TOTAL EXPENDITURES         | <u>8,747,300</u>    | <u>235,091</u> | <u>361,231</u>                | <u>9,343,622</u>    |
| NET CHANGE IN FUND BALANCE | 77,794              | -              | -                             | 77,794              |
| FUND BALANCE, Beginning    | <u>4,442,556</u>    | <u>-</u>       | <u>-</u>                      | <u>4,442,556</u>    |
| FUND BALANCE, Ending       | <u>\$ 4,520,350</u> | <u>\$ -</u>    | <u>\$ -</u>                   | <u>\$ 4,520,350</u> |

See the accompanying independent auditor's report.