# MOUNTAIN SAGE COMMUNITY SCHOOL

## BASIC FINANCIAL STATEMENTS

## YEAR ENDED JUNE 30, 2020

**MOUNTAIN SAGE COMMUNITY SCHOOL**
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**YEAR ENDED JUNE 30, 2020**

CliftonLarsonAllen LLP
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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Mountain Sage Community School
Fort Collins, Colorado

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain Sage Community School (the School), a component unit of Poudre School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the School, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Mountain Sage Community School, as of June 30, 2020, 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.

## Emphasis of Matter

*Correction of an Error*

As described in Note 11, the School restated its net position for governmental activities due to a correction of an error for deferred outflows and deferred inflows relating to the net pension liability. Our opinions are not modified with respect to the restatement.

## 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, schedules of the School's proportionate share, and schedules of the School's contributions on pages 44-47 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 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Broomfield, Colorado
September 28, 2020

## Management's Discussion and Analysis

As management of Mountain Sage Community School (hereinafter Mountain Sage Community School or School), we offer readers of Mountain Sage Community School's financial statements this narrative overview and analysis of the financial activities of Mountain Sage Community School for the fiscal year ended June 30, 2020.

## Financial Highlights

The liabilities of Mountain Sage Community School exceeded its assets at the close of the most recent fiscal year by $4,005,434 (net position) due to including the net pension liability per (GASB) Number 68.

The general fund ending fund balance increased to $752,923 from $641,267, after the seventh year of operations.

## Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Mountain Sage Community School's basic financial statements. Mountain Sage Community 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 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 activities of the School. 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 activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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 School.

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

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed. The School reports the following major funds:

*General Fund* – This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

*Building Corporation* – This fund is used to account for the activities of the Friends of Mountain Sage — Building Corporation.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Mountain Sage Community School, liabilities exceeded assets by $4,005,434 at the close of the most recent fiscal year.

### Mountain Sage Community School's Net Position

| | Governmental Activities June 30, 2019 | Governmental Activities June 30, 2020 |
|---|---|---|
| **CURRENT ASSETS** | $ 768,586 | $ 881,078 |
| **CAPITAL ASSETS** | $ 245,555 | $ 333,186 |
| Total Assets | 1,014,141 | 1,214,264 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pensions | 1,740,040 | 1,147,052 |
| OPEB | 31,595 | 54,551 |
| Total Deferred Outflows of Resources | 1,771,635 | 1,201,603 |
| **CURRENT LIABILITIES** | 127,319 | 128,155 |
| **NONCURRENT DUE IN ONE YEAR** | 38,272 | 40,675 |
| **NONCURRENT DUE IN MORE THAN ONE YEAR** | 133,138 | 92,615 |
| **NET PENSION LIABILITY** | 3,673,771 | 3,646,992 |
| **NET OPEB LIABILITY** | 183,483 | 179,170 |
| Total Liabilities | 4,155,983 | 4,087,607 |
| **DEFERRED INFLOW OF RESOURCES** | | |
| Related to Pensions | 2,738,689 | 2,300,596 |
| Related to OPEB | 279 | 33,098 |
| Total Deferred Inflows of Resources | 2,738,968 | 2,333,694 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 245,555 | 199,896 |
| Restricted for Emergencies Tabor | 75,500 | 101,258 |
| Unrestricted | (4,430,230) | (4,306,588) |
| Total Net Position | $ (4,109,175) | $ (4,005,434) |

The largest portion of Mountain Sage Community School's current assets (96.2%) is cash. The remaining 3.8% reflects accounts receivable, and prepaid expenses. School net position increased by $291,607 in the current fiscal year.

### Mountain Sage Community School's Change in Net Position
### For the Years Ended June 30, 2019 and 2020

| | Governmental Activities June 30, 2019 | Governmental Activities June 30, 2020 |
|---|---|---|
| **PROGRAM REVENUE** | | |
| Grants and Contributions | $ 405,289 | $ 305,826 |
| **GENERAL REVENUE** | | |
| Per Pupil Operating Revenue | 2,352,191 | 3,103,703 |
| Total Revenue | 2,757,480 | 3,409,529 |
| **EXPENSES** | | |
| Current: | | |
| Instruction | 1,926,437 | 1,781,430 |
| Supporting Services | 746,546 | 1,327,334 |
| Interest and Fiscal Charges | 9,728 | 9,158 |
| Total Expenses | 2,682,711 | 3,117,922 |
| **INCREASE (DECREASE) IN NET POSITION** | 74,769 | 291,607 |
| Beginning Net Position - June 30, as Restated | (4,183,944) | (4,297,041) |
| **ENDING NET POSITION - JUNE 30** | $ (4,109,175) | $ (4,005,434) |

### Financial Analysis of the Government's Funds

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

**Governmental Funds.** The focus of Mountain Sage Community School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Mountain Sage Community 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.

Total fund balance for Mountain Sage Community School increased by $111,656. Unassigned fund balance increased by $115,168.

The School's enrollment was full time equivalent students for the first year of operations.

| Fiscal Year | Enrollment |
|---|---|
| 2016/2017 | 244.5 |
| 2017/2018 | 264.6 |
| 2018/2019 | 279.5 |
| 2019/2020 | 299.8 |

As of the end of the current fiscal year, the School's governmental fund reported an ending fund balance of $752,923.

## General Fund Budgetary Highlights

The School approves a budget in April based on enrollment projections for the following school year. In December after enrollment stabilizes, adjustments are made to the budget. The School approved a supplemental budget in December to true up the beginning fund balance and adjustment to the actual student count. Actual expenditures were lower than budgeted expenditures by $25,577. This was largely due to lower than expected spending in materials and supplies. It serves to mention that revenues were also higher than budgeted by $10,065 due to grants such as the IDEA Grant and donations such as SCRIP program.

## Capital Asset and Debt Administration

**Capital Assets.** Mountain Sage Community School capital assets, capitalized leasehold improvements at the end of the 19-20 year stood at $333,186, net of accumulated depreciation. See Note 5 of the notes to financial statements.

**Long-Term Debt.** Mountain Sage Community School has $133,290 of debt due as of June 30, 2020. On August 1, 2018, Friends of Mountain Sage (FMS) entered into a loan agreement with C&C Holdings, LLC, the owner of the School's educational facility. Under the terms of the agreement, the owner has made improvements to the School's leased space. FMS has agreed to repay the owner $205,020 for the cost of the project. The loan carries an interest rate of 5.75% and will be repaid in monthly payments of $3,940 beginning on August 1, 2018 through July 31, 2023. See Note 6 of the notes to financial statements.

## COVID-19

During March 2020, the Colorado government enacted a "shelter in place" order and restrictions to travel were initiated by corporations and governments. In March 2020, Mountain Sage Community School cancelled in-person instruction and transitioned teachers and students to remote online learning for the remainder of the school year. Administrative functions were able to continue within the remote environment. Mountain Sage Community School invested in technology to facilitate online learning and safety equipment and products to reduce the risk of COVID-19 infection and spread.

At this stage, the impact on Mountain Sage Community School has not been significant and based on our experience to date, we expect this to remain the case. We will continue to follow various government policies and advice and will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our community.

## Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) was 265.76 for the 18/19 year and 299.8 for the 19/20 year. The FPC projected for the 20/21 school year is 290 as a decrease in enrollment due to COVID-19 is expected and families are choosing other remote learning options through Poudre School District. This factor and state funding decreases were considered in preparing Mountain Sage's budget for fiscal year 20/21.

### Requests for Information

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

Liv Helmericks
School Director
Mountain Sage Community School
2310 E. Prospect Rd., Suite A
Fort Collins, CO 80525

# BASIC FINANCIAL STATEMENTS

**MOUNTAIN SAGE COMMUNITY SCHOOL**
**STATEMENT OF NET POSITION**
**JUNE 30, 2020**

| | | Governmental Activities |
|---|---|---|
| **ASSETS** | | |
| Cash | $ | 847,305 |
| Accounts Receivable | | 18,610 |
| Prepaid Expenses | | 15,163 |
| Capital Assets, Depreciated, Net of Accumulated Depreciation | | 333,186 |
| Total Assets | | 1,214,264 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Related to Pensions | | 1,147,052 |
| Related to OPEB | | 54,551 |
| Total Deferred Outflows of Resources | | 1,201,603 |
| **LIABILITIES** | | |
| Accounts Payable | | 11,056 |
| Accounts Payable to the District | | 550 |
| Accrued Salaries and Benefits | | 116,549 |
| Unearned Revenues | | - |
| Noncurrent Liabilities: | | |
| Due in One Year | | 40,675 |
| Due in More than One Year | | 92,615 |
| Net Pension Liability | | 3,646,992 |
| Net OPEB Liability | | 179,170 |
| Total Liabilities | | 4,087,607 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Related to Pensions | | 2,300,596 |
| Related to OPEB | | 33,098 |
| Total Deferred Inflows of Resources | | 2,333,694 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | | 199,896 |
| Restricted for Emergencies | | 101,258 |
| Unrestricted | | (4,306,588) |
| Total Net Position | $ | (4,005,434) |

*See accompanying Notes to Financial Statements*

# MOUNTAIN SAGE COMMUNITY SCHOOL
# STATEMENT OF ACTIVITIES
# YEAR ENDED JUNE 30, 2020

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|---|
| Functions / Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| PRIMARY GOVERNMENT | | | | | |
| **Governmental Activities** | | | | | |
| Instructional | $ 1,781,430 | $ 60,155 | $ 145,101 | $ - | $ (1,576,174) |
| Supporting Services | 1,327,334 | - | 17,054 | 83,516 | (1,226,764) |
| Interest and Fiscal Charges | 9,158 | - | - | - | (9,158) |
| Total Governmental Activities | $ 3,117,922 | $ 60,155 | $ 162,155 | $ 83,516 | (2,812,096) |
| | | **GENERAL REVENUES** | | | |
| | | Per Pupil Revenue | | | 2,415,932 |
| | | Mill Levy | | | 580,735 |
| | | Unrestricted State Aid | | | - |
| | | Other | | | 107,036 |
| | | Total General Revenues | | | 3,103,703 |
| | | **CHANGE IN NET POSITION** | | | 291,607 |
| | | Net Position - Beginning of Year, as Restated | | | (4,297,041) |
| | | **NET POSITION - END OF YEAR** | | | $ (4,005,434) |

*See accompanying Notes to Financial Statements*

# MOUNTAIN SAGE COMMUNITY SCHOOL
# BALANCE SHEET
# GOVERNMENTAL FUNDS
# JUNE 30, 2020

| | General Fund | FMS Building Corporation | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 847,305 | $ - | $ 847,305 |
| Accounts Receivable | 18,610 | - | 18,610 |
| Prepaid Items | 15,163 | - | 15,163 |
| Total Assets | $ 881,078 | $ - | $ 881,078 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **LIABILITIES** | | | |
| Accounts Payable | $ 11,056 | $ - | $ 11,056 |
| Accounts Payable to the District | 550 | - | 550 |
| Accrued Salaries and Benefits | 116,549 | - | 116,549 |
| Total Liabilities | 128,155 | - | 128,155 |
| **FUND BALANCES** | | | |
| Nonspendable | 15,163 | - | 15,163 |
| Restricted for Emergencies | 101,258 | - | 101,258 |
| Unassigned | 636,502 | - | 636,502 |
| Total Fund Balances | 752,923 | - | 752,923 |
| Total Liabilities and Fund Balances | $ 881,078 | $ - | $ 881,078 |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 333,186 |
| Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes loan payable ($133,290), net pension liability ($3,646,992), net OPEB liability ($179,170), deferred outflows related to pensions and OPEB $1,201,603, and deferred inflows related to pensions and OPEB ($2,333,694). | (5,091,543) |
| Net position of governmental activities | $ (4,005,434) |

*See accompanying Notes to Financial Statements.*

# MOUNTAIN SAGE COMMUNITY SCHOOL
# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
# GOVERNMENTAL FUNDS
# YEAR ENDED JUNE 30, 2020

| | General Fund | FMS Building Corporation | Total Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Local Sources | $ 3,133,634 | $ 47,278 | $ 3,180,912 |
| State and Federal Sources | 228,617 | - | 228,617 |
| Total Revenues | 3,362,251 | 47,278 | 3,409,529 |
| **EXPENDITURES** | | | |
| Current: | | | |
| Instruction | 1,835,630 | - | 1,835,630 |
| Supporting Services | 1,414,965 | - | 1,414,965 |
| Capital Outlay | - | - | - |
| Debt Service: | | | |
| Principal | - | 38,120 | 38,120 |
| Interest | - | 9,158 | 9,158 |
| Total Expenditures | 3,250,595 | 47,278 | 3,297,873 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 111,656 | - | 111,656 |
| **OTHER FINANCING SOURCES** | | | |
| Debt Proceeds | - | - | - |
| **NET CHANGE IN FUND BALANCES** | 111,656 | - | 111,656 |
| Fund Balances - Beginning of Year | 641,267 | - | 641,267 |
| **FUND BALANCES - END OF YEAR** | $ 752,923 | $ - | $ 752,923 |

*See accompanying Notes to Financial Statements.*

**MOUNTAIN SAGE COMMUNITY SCHOOL**
**RECONCILIATION OF THE STATEMENT OF REVENUES,**
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2020**

| | | |
|---|---|---|
| Net Change in Fund Balances - Total Governmental Funds | $ | 111,656 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| 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. This is the amount by which capital outlay $129,988, exceeded depreciation expense ($42,357) in the current period. | | 87,631 |
| Repayment of long-term debt is an expenditure in the governmental funds, but repayment of principal reduces long-term liabilities in the statement of net position. This is the amount of loan principal payment for the year. | | 38,120 |
| Deferred charges related to pension and OPEB are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized. | | 54,200 |
| Change in Net Position of Governmental Activities | $ | 291,607 |

*See accompanying Notes to Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mountain Sage Community School (the School) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School was formed in November 2011 and started classes in the fall of 2013.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

### Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

Based upon the application of these criteria, the School includes the Friends of Mountain Sage Building Corporation (the Building Corporation) within its reporting entity. The Building Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing of the School's facilities. The Building Corporation is blended into the School's financial statements as a special revenue fund. Separate financial statements are not available for this entity.

The School is a component unit of the Poudre School District (the District).

### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. 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 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 charges to students or others who purchase, use, or directly benefit from goods, services, are restricted to meeting the operational or capital requirements of particular function or segment.

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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 School.

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

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

The School reports the following major funds:

General Fund

This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Building Corporation

This fund is used to account for the activities of the Friends of Mountain Sage — Building Corporation.

### Deferred Outflows / Inflows 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Outflows / Inflows of Resources (Continued)

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.

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

#### Investments

Investments are recorded at fair value.

#### Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School 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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: equipment, 5 years, leasehold improvements, 3 – 10 years.

#### Net Position

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investments in capital assets, restricted, and unrestricted and are as follows:

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with nonliquid capital assets less outstanding capital assets 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 management may have categorized and segmented portions for various purposes, the board of directors has the unrestricted authority to revisit or alter these managerial decisions.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 School 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 School considers prepaid items as nonspendable.

- 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 School has classified emergency reserves as being restricted because their use is restricted by state statute for declared emergencies.

- 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 School did not have any committed resources as of June 30, 2020.

- Assigned – This classification includes amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The School did not have any assigned resources as of June 30, 2020.

- 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 School 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Compensated Absences

The School's policy allows employees to accumulate sick and vacation leave. Employees are not compensated for any unused paid time off. Therefore, no liability for accumulated sick leave is reported in the financial statements.

### Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial coverage for these risks of loss. Settled claims have not exceeded any coverage in the past three years.

## NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgets and Budgetary Accounting

A budget is adopted for all funds on a basis consistent with generally accepted accounting principles. School management submits to the board of directors a proposed budget for the fiscal year commencing the following 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 must be approved by the board of directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

## NOTE 3 CASH

Cash at June 30, 2020 consisted of the following:

| | |
|---|---|
| Cash on Hand | $ 8 |
| Deposits | 847,297 |
| Total | $ 847,305 |

### 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, 2020, state regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

## NOTE 3 CASH (CONTINUED)

At June 30, 2020, the School had deposits with financial institutions with a carrying amount of $847,297. The bank balances with the financial institution were $852,127. Of these balances, $250,000 was covered by federal depository insurance and $602,127 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

### Investments

Interest Rate Risk

The School 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 units of local government may invest, which include:

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

The School had no investments at June 30, 2020.

## NOTE 4 ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a 12-month period from August to July, but are earned during a school year of approximately 9 to 10 months. The salaries and benefits earned, but unpaid, as of June 30, 2020, were $116,549; accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the general fund.

## NOTE 5 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is summarized below.

| | Balance June 30, 2019 | Additions | Deletions | Balance June 30, 2020 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets Being Depreciated: | | | | |
| Leasehold Improvements | $ 306,749 | $ - | $ - | $ 306,749 |
| Buildings and Improvements | - | 129,988 | - | 129,988 |
| | $ 306,749 | $ 129,988 | $ - | $ 436,737 |
| Accumulated Depreciation: | | | | |
| Leasehold Improvements | 61,194 | 30,675 | - | 91,869 |
| Buildings and Improvements | - | 11,682 | | 11,682 |
| Net Capital Assets | $ 245,555 | $ 87,631 | $ - | $ 333,186 |

Depreciation has been charged to the supporting services program of the School.

## NOTE 6 LONG-TERM DEBT

Following is a summary of the School’s long-term debt transactions for the year ended June 30, 2020:

| | Balance June 30, 2019 | Additions | Payments | Balance June 30, 2020 | Due in One Year |
|---|---|---|---|---|---|
| Loan Payable | $ 171,410 | $ - | $ 38,120 | $ 133,290 | $ 40,675 |
| Total | $ 171,410 | $ - | $ 38,120 | $ 133,290 | $ 40,675 |

**Loan Payable**

On August 1, 2018, Friends of Mountain Sage (FMS) entered into a loan agreement with C&C Holdings, LLC, the owner of the School’s educational facility. Under the terms of the agreement, the owner has made improvements to the School’s leased space. FMS has agreed to repay the owner $205,020 for the cost of the project. The loan carries an interest rate of 5.75% and will be repaid in monthly payments of $3,940 beginning on August 1, 2018 through July 31, 2023.

In conjunction with the loan agreement, the School has entered into an agreement with FMS to make corresponding lease payments to FMS for payment of the loan.

## NOTE 6 LONG-TERM DEBT (CONTINUED)

### Loan Payable (Continued)

Future debt service requirements are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 40,675 | $ 6,603 | $ 47,278 |
| 2022 | 43,076 | 4,202 | 47,278 |
| 2023 | 45,619 | 1,659 | 47,278 |
| 2024 | 3,920 | 19 | 3,939 |
| 2025 | - | - | - |
| Total | $ 133,290 | $ 12,483 | $ 145,773 |

## NOTE 7 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, and additions to / deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SCHDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SCHDTF by 0.25% on July 1, 2019.
- Increases employee contribution rates for the SCHDTF by a total of 2% (to be phased in over a period of three years starting on July 1, 2019).

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

### Summary of Significant Accounting Policies (Continued)

Pensions (Continued)

- As specified in C.R.S. § 24-51-413, the state is required to contribute $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019, and raises the retirement age for new employees.

- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020 and then each year thereafter to help keep PERA on path to full funding in 30 years.

### General Information About the Pension Plan

Plan Description

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

Benefits Provided as of December 31, 2018

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.

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

### General Information About the Pension Plan (Continued)

Benefits Provided as of December 31, 2018 (Continued)

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

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100% 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% 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% 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% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained, and the benefit structure under which contributions were made.

As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement, cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5% or the average of the

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

### General Information About the Pension Plan (Continued)

Benefits Provided as of December 31, 2018 (Continued)

Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lessor of an annual increase of 1.5% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for SCHDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one quarter of 1% based on the parameters specified 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 decreased, 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, 2019

Eligible employees, the School and the state are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 8% of their PERA-includable salary during the period of July 1, 2019, through June 30, 2020. Employer contribution requirements are summarized in the table below:

| | January 1, 2019 Through June 30, 2019 | July 1, 2019 Through June 30, 2020 |
|---|---|---|
| Employer Contribution Rate[1] | 10.15 % | 10.40 % |
| Amount of Employer Contribution Apportioned to the Health Care Trust Fund as Specified in C.R.S. § 24-51-208(1)(f) [1] | (1.02)% | (1.02)% |
| Amount Apportioned to the SCHDTF[1] | 9.13 % | 9.38 % |
| Amortization Equalization Disbursement (AED) as Specified in C.R.S. § 24-51-411 [1] | 4.50 % | 4.50 % |
| Supplemental Amortization Equalization Disbursement (SAED) as Specified in C.R.S. § 24-51-411 [1] | 5.50 % | 5.50 % |
| Total Employer Contribution Rate to the SCHDTF | 19.13 % | 19.38 % |

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

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

### General Information About the Pension Plan (Continued)

Contributions Provisions as of June 30, 2019 (Continued)

As specified in C.R.S. § 24-51-413, the state is required to contribute $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

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 $306,009 for the year ended June 30, 2020.

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

The net pension liability for the SCHDTF was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll forward the total pension liability to December 31, 2019. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2018 relative to the total contributions of participating employers and the state as a nonemployer contributing entity.

At June 30, 2020, the School reported a liability of $3,646,992 for its proportionate share of the net pension liability that reflected a reduction for support from the state as a nonemployer contributing entity. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the state as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with School were as follows:

| | |
|---|---|
| School's Proportionate Share of the Net Pension Liability | $ 3,646,992 |
| The State's Proportionate Share of the Net Pension Liability as a Nonemployer Contributing Entity Associated with the School | 462,574 |
| Total | $ 4,109,566 |

At December 31, 2019, the School proportion was .02441%, which was a decrease of .00366 from its proportion measured as of December 31, 2018.

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2020, the School recognized pension expense of $276,819 and revenue of $14,632 for support from the state as a nonemployer contributing entity. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Expected and Actual Experience | $ 198,763 | $ - |
| Changes of Assumptions or Other Inputs | 104,116 | 1,654,241 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | - | 432,022 |
| Changes in Proportion and Differences Between Contributions Recognized and Proportionate Share of Contributions | 695,470 | 214,333 |
| Contributions Subsequent to the Measurement Date | 148,703 | - |
| Total | $ 1,147,052 | $ 2,300,596 |

The amount of $148,703 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:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $ (771,438) |
| 2022 | (512,232) |
| 2023 | 128,385 |
| 2024 | (146,962) |
| 2025 | - |
| Thereafter | - |

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Actuarial Assumptions

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

| | |
|---|---|
| Actuarial Cost Method | Entry Age |
| Price Inflation | 2.40 % |
| Real Wage Growth | 1.10 % |
| Wage Inflation | 3.50 % |
| Salary 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 (Automatic) | 1.25 % Compounded Annually |
| PERA Benefit Structure Hired After 12/31/06 (ad hoc, Substantively Automatic) | Financed by the Annual Increase Reserve |

The revised assumptions shown below were reflected in the roll forward calculation of the total pension liability from December 31, 2018, to December 31, 2019:

| | |
|---|---|
| Discount Rate | 7.25 % |
| Post-Retirement Benefit Increases: | |
| PERA Benefit Structure Hired Prior to 1/1/07 and DPS Benefit Structure (Automatic) | 1.25 % Compounded Annually |
| PERA Benefit Structure Hired After 12/31/06 (ad hoc, Substantively Automatic) | Financed by the Annual Increase Reserve |

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

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

Healthy, post-retirement mortality assumptions reflect 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% factor applied to rates for ages less than 80, a 113% 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% factor applied to rates for ages less than 80, a 106% factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

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

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

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

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

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

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

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

Discount Rate

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future Plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- 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 and an additional 0.50% resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective Jul 1, 2020. Employee contributions for future Plan members were used to reduce the estimated amount of total service costs for future Plan members.

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Discount Rate (Continued)

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and the additional 0.50%, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future Plan members, employer contributions were further reduced by the estimated amount of total service costs for future Plan members not financed by their member contributions.

- As specified in law, the state will provide an annual direct distribution of $225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.

- Employer contributions and the amount of total service costs for future Plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future Plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the middle of the year.

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

As of the prior measurement date, the long-term expected rate of return on Plan investments of 7.25% and the municipal bond index rate of 3.43% were used in the discount rate determination resulting in a discount rate of 4.78%, 2.47% lower compared to the current measurement date.

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $ 4,836,692 | $ 3,646,992 | $ 2,648,135 |

Pension Plan Fiduciary Net Position

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

Benefits Provided as of December 31, 2017

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

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

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.

- The value of the retiring employee's member contribution account plus a 100% 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% 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.

## NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Benefits Provided as of December 31, 2017 (Continued)

In all cases, the service retirement benefit is limited to 100% 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% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

## NOTE 8 DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

### Summary of Significant Accounting Policies

OPEB

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

### General Information About the OPEB Plan

Plan Description

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

## NOTE 8 DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (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 basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

## NOTE 8 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 basis for 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% 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% 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 $16,106 for the year ended June 30, 2020.

## NOTE 8 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, 2020, the School reported a liability of $179,170 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2019. The School's proportion of the net OPEB liability was based on School's contributions to the HCTF for the calendar year 2010 relative to the total contributions of participating employers to the HCTF.

At December 31, 2019, the School proportion was .01594%, which was an increase of .00245% from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, the School recognized OPEB expense of $13,458. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Expected and Actual Experience | $ 595 | $ 30,107 |
| Changes of Assumptions or Other Inputs | 1,486 | - |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | - | 2,991 |
| Changes in Proportion and Difference Between Contributions Recognized and Proportionage Share of Contributions | 44,644 | - |
| Contributions Subsequent to the Measurement Date | 7,826 | - |
| Total | $ 54,551 | $ 33,098 |

## NOTE 8 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)**

The amount of $7,826 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $ 4,233 |
| 2022 | 4,234 |
| 2023 | 5,100 |
| 2024 | 441 |
| 2025 | (356) |
| Thereafter | (25) |

Actuarial Assumptions

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

| | |
|---|---|
| Actuarial Cost Method | Entry Age |
| Price Inflation | 2.40 % |
| Real Wage Growth | 1.10 % |
| Wage Inflation | 3.50 % |
| Salary 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% |
| PERACare Medicare Plans | 5.60% in 2019, gradually decreasing to 4.50% in 2029 |
| Medicare Part A Premiums | 3.50% for 2019, gradually increasing to 4.50% in 2029 |
| DPS Benefit Structure: | |
| Service-Based Premium Subsidy | 0% |
| PERACare Medicare Plans | N/A |
| Medicare Part A Premiums | N/A |

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

**NOTE 8 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 Assumptions (Continued)

The actuarial assumptions used in the December 31, 2018, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2019 for the PERA Benefit Structure:

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

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

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

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

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

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

## NOTE 8 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 Assumptions (Continued)

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

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

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

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

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

## NOTE 8 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 Assumptions (Continued)

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

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

Healthy, post-retirement 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% factor applied to rates for ages less than 80, a 113% 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% factor applied to rates for ages less than 80, a 106% factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

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

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2019 Plan year.

- The 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.

## NOTE 8 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 Assumptions (Continued)

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

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

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

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

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

## NOTE 8 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)**

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 1-percentage point lower or 1-percentage point higher than the current rates:

| | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|---|---|---|---|
| Initial PERACare Medicare Trend Rate | 4.60 % | 5.60 % | 6.60 % |
| Ultimate PERACare Medicare Trend Rate | 3.50 % | 4.50 % | 5.50 % |
| Initial Medicare Part A Trend Rate | 2.50 % | 3.50 % | 4.50 % |
| Ultimate Medicare Part A Trend Rate | 3.50 % | 4.50 % | 5.50 % |
| Net OPEB Liability | $ 174,914 | $ 179,170 | $ 184,089 |

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate applied for 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 December 31, 2019, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future Plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future Plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future Plan member growth rate.
- Benefit payments and contributions were assumed to be made at the middle of the year.

## NOTE 8 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)

Discount Rate (Continued)

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

Sensitivity of the School's Proportionate Share of 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%, 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%) or 1-percentage point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate Share of the Net OPEB Liability | $ 202,588 | $ 179,170 | $ 159,143 |

OPEB Plan Fiduciary Net Position

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

## NOTE 9 COMMITMENTS AND CONTINGENCIES

### Building Lease

In February 2013, the School entered into a lease agreement with C&C Holdings (the Landlord) for the School's building and surrounding land. The School is required to make monthly lease payments to the Landlord through July 31, 2018. In June 2013, the School amended this lease to include additional tenant improvements and in August 2016 the School amended the lease to include additional space. After the initial lease period ends, the School has the option to extend the lease for two consecutive five-year periods (10 years).

On August 1, 2018, the School amended the existing lease agreement with its Landlord. The revised agreement extends the lease term to July 31, 2023. Under the terms of the revised agreement, the School will lease additional space and will pay monthly rent payments ranging from $19,811 to $22,126. The School also has the option to extend the lease term for two additional five-year periods.

## NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Land Lease

On August 1, 2013, the School entered into a lease agreement with Gateway Medical Services for the School's land. The School is required to make monthly payments to Gateway Medical Services as long as they continue to lease the land. The agreement is renewable each year. Under the terms of the agreement, the School's rent increases by 5% each year. The monthly rent payments range from $1,000 to $1,477.

### Copier Leases

The School has entered into four copier leases with Xerox. Two leases were entered into on February 21, 2019, and extend for 60 months to February 21, 2023. The payment terms are a minimum of $55.84 per month. One copier lease was entered into on June 25, 2018, and extends for 60 months to June 25, 2022. The payment terms are a minimum of $152.47 per month. The final copier lease was entered into on November 28, 2016, and extends for 60 months to November 28, 2020. The payment terms are a minimum of $116.98 per month.

Future lease payments are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $ 273,790 |
| 2022 | 279,064 |
| 2023 | 282,786 |
| 2024 | 39,785 |
| Total | $ 875,425 |

Rent expense for the year ended June 30, 2020 was $268,315.

### Claims and Judgments

The School 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 School may be required to reimburse the grantor government. As of June 30, 2020, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

### Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2020, the reserve of $101,258 was recorded as a restriction of fund balance in the General Fund.

## NOTE 10 DEFICIT NET POSITION

The net position of the governmental activities is in a deficit position in the amount of $4,005,434 due to the School including its net position liability and net OPEB liability per the requirements of GASB Statement Nos. 68 and 75.

## NOTE 11 RESTATEMENT OF NET POSITION

The School restated beginning net position to correct an error in the calculations of deferred outflows and deferred inflows relating to the net pension liability.

The restatement of the prior period net position for the correction of the error is shown below.

| | |
|---|---|
| Net Position, June 30, 2019, as Previously Reported | ($4,109,175) |
| Effect of a prior period adjustment to restate the deferred outflows and deferred inflows relating to the net pension liability | (187,866) |
| Net Position, June 30, 2019, as Restated | ($4,297,041) |

# REQUIRED SUPPLEMENTARY INFORMATION

# MOUNTAIN SAGE COMMUNITY SCHOOL
## GENERAL FUND
## BUDGETARY COMPARISON SCHEDULE
## YEAR ENDED JUNE 30, 2020
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | 2020 | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **REVENUES** | | | | |
| Local Sources: | | | | |
| Per Pupil Revenue | $ 2,437,765 | $ 2,415,941 | $ 2,415,932 | $ (9) |
| Mill Levy | 398,401 | 585,277 | 580,735 | (4,542) |
| Tuition and Fees | 66,130 | 63,538 | 60,155 | (3,383) |
| Contributions | 8,000 | 8,000 | 17,054 | 9,054 |
| Other | 16,450 | 2,400 | 59,758 | 57,358 |
| State and Federal Sources: | | | | |
| Grants | 226,968 | 277,030 | 228,617 | (48,413) |
| Total Revenues | 3,153,714 | 3,352,186 | 3,362,251 | 10,065 |
| **EXPENDITURES** | | | | |
| Salaries | 1,565,930 | 1,597,930 | 1,682,861 | (84,931) |
| Employee Benefits | 632,157 | 678,302 | 504,489 | 173,813 |
| Purchased Services | 778,846 | 882,246 | 839,108 | 43,138 |
| Supplies and Materials | 67,330 | 65,000 | 73,653 | (8,653) |
| Property | 26,800 | 46,000 | 107,545 | (61,545) |
| Other | 6,694 | 6,694 | 42,939 | (36,245) |
| Total Expenditures | 3,077,757 | 3,276,172 | 3,250,595 | 25,577 |
| **NET CHANGE IN FUND BALANCE** | 75,957 | 76,014 | 111,656 | 35,642 |
| Fund Balance - Beginning of Year | 264,981 | 322,730 | 641,267 | 318,537 |
| **FUND BALANCE - END OF YEAR** | $ 340,938 | $ 398,744 | $ 752,923 | $ 354,179 |

# MOUNTAIN SAGE COMMUNITY SCHOOL
## SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
## SCHOOL DIVISION TRUST FUND
## YEARS ENDED DECEMBER 31,
### (SEE INDEPENDENT AUDITORS' REPORT)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| School's Proportionate Share of the Net Pension Liability | 0.024411276% | 0.020747500% | 0.022691464% | 0.019484148% | 0.015966669% | 0.013390031% | 0.010568459% |
| School's Net Pension Liability | $ 3,646,992 | $ 3,673,771 | $ 7,337,613 | $ 5,801,184 | $ 2,441,989 | $ 1,814,799 | $ 1,348,004 |
| State of Colorado Proportionate Share of the Net Pension Liability Associated with the School | 462,574 | 50,237 | - | - | - | - | - |
| Total Portion of the Net Pension Liability Associated with the School | $ 4,109,566 | $ 3,724,008 | $ 7,337,613 | $ 5,801,184 | $ 2,441,989 | $ 1,814,799 | $ 1,348,004 |
| School's Covered Payroll | $ 1,431,299 | $ 1,167,946 | $ 1,045,731 | $ 874,483 | $ 695,824 | $ 560,946 | $ 416,048 |
| School's Proportionate Share of the Net Pension Liability as a Percentage Percentage of its Covered Payroll | 254.80% | 314.55% | 701.67% | 663.38% | 350.95% | 323.52% | 324.00% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 64.52% | 57.01% | 43.96% | 43.10% | 59.20% | 62.80% | 62.80% |

# MOUNTAIN SAGE COMMUNITY SCHOOL
## SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
## SCHOOL DIVISION TRUST FUND
## YEARS ENDED JUNE 30,
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| Statutorily Required Contributions | $ 306,009 | $ 232,250 | $ 205,351 | $ 191,543 | $ 143,508 | $ 112,224 | $ 80,297 |
| Contributions in Relation to the Statutorily Required Contributions | 306,009 | 232,250 | 205,351 | 191,543 | 143,508 | 112,224 | 80,297 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| School's Covered Payroll | $ 1,578,990 | $ 1,214,069 | $ 1,087,593 | $ 987,031 | $ 764,935 | $ 626,427 | $ 471,162 |
| Contributions as a Percentage of Covered Payroll | 19.38% | 19.13% | 18.88% | 19.41% | 18.76% | 17.91% | 17.04% |

# MOUNTAIN SAGE COMMUNITY SCHOOL
## SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
## HEALTH CARE TRUST FUND
## YEARS ENDED DECEMBER 31,
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| School's Proportionate Share of the Net OPEB Liability | 0.0159404534% | 0.0134859937% | 0.0128932030% | 0.0110750214% |
| School's Net OPEB Liability | $ 179,170 | $ 183,483 | $ 167,560 | $ 143,591 |
| School's Covered Payroll | $ 1,431,299 | $ 1,167,946 | $ 1,045,731 | $ 874,483 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 12.52% | 15.71% | 16.02% | 16.42% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 24.49% | 17.03% | 17.53% | 16.72% |

**MOUNTAIN SAGE COMMUNITY SCHOOL**
**SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS**
**HEALTH CARE TRUST FUND**
**YEARS ENDED JUNE 30,**
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Statutorily Required Contributions | $ 16,106 | $ 12,384 | $ 11,093 | $ 10,068 |
| Contributions in Relation to the Statutorily Required Contributions | 16,106 | 12,384 | 11,093 | 10,068 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - |
| School's Covered Payroll | $ 1,578,990 | $ 1,214,069 | $ 1,087,593 | $ 987,031 |
| Contributions as a Percentage of Covered Payroll | 1.02% | 1.02% | 1.02% | 1.02% |