# STEM School Highlands Ranch and Academy

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

Financial Statements

**June 30, 2020**

HINKLE & COMPANY PC
*Strategic Business Advisors*

# STEM School Highlands Ranch and Academy

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

Table of Contents

June 30, 2020

**Independent Auditors' Report** .......... 1

**Management's Discussion and Analysis** .......... i

**Basic Financial Statements**

*Government-wide Financial Statements*

Statement of Net Position .......... 3
Statement of Activities .......... 4

*Governmental Fund*

Balance Sheet .......... 5
Statement of Revenues, Expenditures and Changes in Fund Balance .......... 6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities .......... 7

*Proprietary Fund*

Statement of Net Position .......... 8
Statement of Revenues, Expenses and Changes in Net Position .......... 9
Statement of Cash Flows .......... 10

*Notes to Financial Statements* .......... 11

**Required Supplementary Information**

Schedule of Proportionate Share of the Net Pension Liability and Contributions .......... 37
Schedule of Proportionate Share of the Net OPEB Liability and Contributions .......... 39
Budgetary Comparison Schedule General Fund .......... 40

*Notes to Required Supplementary Information* .......... 41

HINKLE & COMPANY PC
Strategic Business Advisors

# Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School Highlands Ranch and Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the STEM School Highlands Ranch and Academy, as listed in the table of contents.

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

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

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

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

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**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School Highlands Ranch and Academy as of June 30, 2020, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

Hinkle & Company, pc

Greenwood Village, Colorado
October 12, 2020

STEM School Highlands Ranch and Academy
Management's Discussion and Analysis
For the Year Ended June 30, 2020

This section of STEM School Highlands Ranch (SSHR) and Academy annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

## FINANCIAL HIGHLIGHTS

The year ended June 30, 2020 is the tenth year of operations for SSHR and Academy.

The General Fund balance increased by $3,579,661 during the fiscal year ended June 30, 2020 with a total Fund Balance as of June 30, 2020 of $10,745,824.

The operation of SSCH and Academy is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for STEM increased approximately 4.8% from $7,754.59 for 2018-2019 to $8,123.86 for 2019-2020 school year. STEM decreased pupil count by 95 students which amounted to a $771,766.70 decrease in Per Pupil Revenue for 2019-2020 school year or 5.4% of student count.

### Overview of Financial Statements

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

### Government-Wide Financial Statements

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

The statement of activities presents information showing how the School's net position changed during the year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities financial statements, only in more detail. The proprietary fund financial statements provide separate information for the leasing activities of the Corporation.

**Notes to Financial Statements**

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

**Other Information-GASB 68**

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the year ended June 30, 2020, SSHR's total net position was a negative ($20,062,173), and the positive increase is $2,912,866 from last year. The net pension liability in the amount of $19,388,674, represents the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position on December 31, 2018 (see page 22). Standard update procedures were used to roll forward the total pension liability to December 31, 2018. Of SSHR's total net position, $1,386,347 is the Net Investment in Capital Assets. A negative ($22,023,520) is unrestricted and $575,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

**Government–wide Financial Analysis**

The two summary statements below (pages v and vi) report the fiscal year 2020, and the prior year, fiscal year 2019.

**Analysis of Fund Operations**

Revenues: Total revenues for the period of July 1, 2019 through June 30, 2020 were $17,899,063 plus $1,996,600 for PPP (Paycheck Protection Program) forgivable loan for a total overall revenue of $19,895,663. Overall revenue (excluding PPP loan) from 2018-2019 to 2019-2020 decrease 2.8%. The majority of income was received in the form of per pupil revenue, allocated from the State of Colorado through the School's charter authorizer Douglas County School District. The School had 1,749 full time students and received $8,123.86 for per pupil funding. The rate of per pupil funding increased $369.27 from 2018-2019 to 2019-2020. The School received $487,709 in Capital Construction funding from the State of Colorado that supported the building lease expense. Douglas County received from the Federal Government CARES money (Coronavirus Aid, Relief, and Economic Security) of which SSHR received $735,384 to be spent by December 31, 2020 on expenditures associated with actions to facilitate compliance with COVID-19-related public health measures, including facilitating distance learning and social distancing for in-person contact hours and mitigating lost learning.

As of June 30, 2020 SSHR, has utilized $128,078 of this relief money. SSHR also received the Federal Forgiveness Loan (Paycheck Protection Program) in the amount of $1,996,600 to offset payroll cost which is also related to mitigating loss associated with the COVID-19 pandemic specific to payroll cost, insurance coverage and other payroll related expenses. As of the date of this report the SBA (Small Business Association) has still not given guidance on the process for submitting forms necessary for forgiveness of this loan. SSHR anticipates all requirements for forgiveness have been met and it currently is waiting on the SBA to give specific direction.

Expenses: Total expenses for the period of July 1, 2019 through June 30, 2020 were $16,316,002 up 9% from the year ended June 30, 2019. The overall increase in expense is attributed to several factors: purchase services with Douglas County School District continue to rise even with SSHR's student count down 95 students from 2018-2019. Building renovation for the school included completion of the outdoor playing field and the restoration and redirection of middle school classrooms attributed to the prior year May 7th incident. In November 2018 Douglas County passed mill levy 5A which was to increase teacher/staff pay to address internal pay gaps and become more competitive with the pay of our neighboring school districts. In 2019-2020 SSHR was able to increase pay for all staff, the increase in payroll expenses is approximately $612,000 or 7.7%. Lastly CARES expenses for 2019-2020 totaled $128,078.

General Fund: For the period of July 1, 2019 through June 30, 2020 STEM reported a General Fund Balance of $10,745,824 or 50% increase from the prior year. Net Position Building Corp - For the period of July 1, 2019 through June 30, 2020 the Building Corporation reported a net decrease of ($3,600,980) in net position. This decrease is due to a write off of the book value of leasehold improvements and the book value of the Ridgeline and Barrons property parking lots. The Building Corp through a $10,795,000 bond, acquired the previous leased Barrons building for $7,208,818, paid off the remaining balance of the previous 2016 Bond for $2,650,000, The remaining balance of approximately $800,000 included closing cost and money that will be used for additional capital improvements. SSHR wrote off the entire book value of both building parking lots, when both were repaved in July 2020. The repaving of both lots will be captured in capital assets for the 2020-21 schools' financial statements.

**Analysis of Budget-General Fund**

The 2019-2020 SSHR school budget was approved and finalized by the Board of Directors in October 2019 and included School expenditures of $16,951,260. The budget revisions and finalization were based on projected October enrollment, however revenue exceeded budget with the unanticipated CARES money and the PPP forgivable loan of $1,996,600. SSHR's actual expenditures and transfers out were less than the final budgeted amounts by $717,721 which is mainly attributed to an unused contingency amount of $250,000 and overall maintenance cost lower for the end of 3rd quarter and the entire 4th quarter due to COVID -19's complete shutdown. Change in fund balance was budgeted at a net income of $306,348 and the year closed at a net income of $3,579,661.

## Capital Assets and Long-Term Debt

SSHR has two outstanding bonds: Series 2014 for $14,670,000 and Series 2019 for $10,795,000. As stated previously the 2016 bond for $3,000,000 was paid off with the 2019 bonds. Additional information regarding capital assets and long-term debt for these Series bonds is provided in Notes 5 to the financial statements.

## Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Actual enrollment for the 2019-20 school year was 1749 and budgeted projected enrollment for the 2019-20 school year was 1767.

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

## Unusual and Extraordinary

SSHR, like the rest of the county has been negatively impacted by the COVID-19 world pandemic and has had to be very nimble in its approach to all aspects of running the school. SSHR has built a significant fund balance and has leveraged the PPP forgivable loan to ensure that although it holds to a very stringent approach to financial decisions it still will be able to meet and exceed the SSHR community needs.

**Condensed Statement of Net Position**

| | Governmental | | Business-Type Activities | | Combined | |
|---|---|---|---|---|---|---|
| | 2019-2020 | 2018-2019 | 2019-2020 | 2018-2019 | 2019-2020 | 2018-2019 |
| **Current assets:** | | | | | | |
| **Cash Assets** | $ 12,253,266 | $ 8,168,207 | $ 2,732,628 | $ 1,422,983 | $ 14,985,894 | $ 9,591,190 |
| **Other Assets** | $ 155,696 | $ 32,671 | | | $ 155,696 | |
| **Net capital assets** | $ 1,386,347 | $ 1,194,567 | $ 15,938,714 | $ 12,188,909 | $ 17,325,061 | $ 13,383,476 |
| **Deferred Outflow of Resources** | | | | | | |
| Loss on debt refunding | | | | $ - | $ - | $ - |
| Pensions, net of Accm Amortization | $ 3,260,319 | $ 10,117,133 | | | $ 3,260,319 | $ 10,117,133 |
| **TOTAL ASSETS** | $ 17,055,628 | $ 19,512,578 | $ 18,671,342 | $ 13,611,892 | $ 35,726,970 | $ 33,124,470 |
| **Current liabilities:** | $ 1,663,138 | $ 1,034,715 | $ 484,478 | $ 452,806 | $ 2,147,616 | $ 1,487,521 |
| **Long-term liabilities:** | $ 22,338,577 | $ 24,701,605 | $ 24,859,242 | $ 16,230,484 | $ 47,197,819 | $ 40,932,089 |
| **Deferred Inflow of Resources** | | | | | | |
| Pensions, net of Accm Amortization | $ 13,116,086 | $ 16,751,297 | | | $ 13,116,086 | $ 16,751,297 |
| **TOTAL LIABILITIES** | $ 37,117,801 | $ 42,487,617 | $ 25,343,720 | $ 16,683,290 | $ 62,461,521 | $ 59,170,907 |
| **Net position:** | | | | | | |
| **Net investment in capital assets** | $ 1,386,347 | $ 1,194,567 | $ (9,205,528) | $ (4,361,575) | $ (7,819,181) | $ (3,167,008) |
| **Restricted for Debt Service** | | | $ 2,229,002 | $ 1,128,111 | $ 2,229,002 | $ 1,128,111 |
| **Restricted for TABOR** | $ 575,000 | $ 546,515 | | | $ 575,000 | $ 546,515 |
| **Restricted for other purposes** | | | $ 304,148 | $ 162,066 | $ 304,148 | $ 162,066 |
| **Unrestricted** | $ (22,023,520) | $ (24,716,121) | | | $ (22,023,520) | $ (24,716,121) |
| **TOTAL NET POSITION** | $ (20,062,173) | $ (22,975,039) | $ (6,672,378) | $ (3,071,398) | $ (26,734,551) | $ (26,046,437) |

Condensed Statement of Activities

| | Governmental | | Business-Type Activities | | Combined | |
|---|---|---|---|---|---|---|
| | Actual 2019-2020 | Actual 2018-2019 | Actual 2019-2020 | Actual 2018-2019 | Actual 2019-2020 | Actual 2018-2019 |
| **Revenue:** | | | | | | |
| Per Pupil Revenue | $ 14,259,921 | $ 14,368,201 | | | $ 14,259,921 | $ 14,368,201 |
| Investments | | | | | | |
| Mill Levy/Override | $ 2,031,088 | $ 2,195,235 | | | $ 2,031,088 | $ 2,195,235 |
| Capital Contruction | $ 487,709 | $ 552,886 | | | $ 487,709 | $ 552,886 |
| Interest Income | $ 141,551 | $ 135,944 | $ 1,281 | $ 21,512 | $ 142,832 | $ 157,456 |
| Student Participation Fees | $ 356,243 | $ 583,295 | | | $ 356,243 | $ 583,295 |
| Rental/Lease | $ 66,025 | $ 61,765 | | | $ 66,025 | $ 61,765 |
| Contributions/Donations | $ 448,053 | $ 336,377 | | | $ 448,053 | $ 336,377 |
| Local Sources | $ 17,790,590 | $ 18,233,703 | $ 1,281 | $ 21,512 | $ 17,791,871 | $ 18,255,215 |
| Total Revenues | $ 17,790,590 | $ 18,233,703 | $ 1,281 | $ 21,512 | $ 17,791,871 | $ 18,255,215 |
| **Expenses:** | | | | | | |
| Instructional | $ 7,418,097 | $ 9,935,809 | | | $ 7,418,097 | $ 9,935,809 |
| Support | $ 6,040,232 | $ 6,705,281 | | | $ 6,040,232 | $ 6,705,281 |
| Building Corporation | | | $ 5,021,656 | $ 1,480,637 | $ 5,021,656 | $ 1,480,637 |
| Total Expenses | $ 13,458,329 | $ 16,641,090 | $ 5,021,656 | $ 1,480,637 | $ 18,479,985 | $ 18,121,727 |
| Transfers | $ (1,419,395) | $ (1,179,056) | $ 1,419,395 | $ 1,179,056 | $ - | $ - |
| Change in Net Position | $ 2,912,866 | $ 413,557 | $ (3,600,980) | $ (280,069) | $ (688,114) | $ 133,488 |
| Net Position, Beginning | $ (22,975,039) | $ (23,388,596) | $ (3,071,398) | $ (2,791,329) | $ (26,046,437) | $ (26,179,925) |
| Prior Year Adjustment OPEB | | | | | $ - | $ - |
| Net Position, Ending | $ (20,062,173) | $ (22,975,039) | $ (6,672,378) | $ (3,071,398) | $ (26,734,551) | $ (26,046,437) |

## Requests for Information

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

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

# Basic Financial Statements

# STEM School Highlands Ranch and Academy

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

Statement of Net Position

June 30, 2020

| | Governmental Activities | Business-Type Activities | Total | Component Unit STEM Academy |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Investments | $ 12,253,266 | $ - | $ 12,253,266 | $ 54,759 |
| Restricted Cash and Investments | - | 2,732,628 | 2,732,628 | - |
| Accounts Receivable | 97,985 | - | 97,985 | - |
| Prepaid Expenses | 57,711 | - | 57,711 | - |
| Capital Assets*, Not Being Depreciated* | - | 2,370,970 | 2,370,970 | - |
| Capital Assets*, Net of Accumulated Depreciation* | 1,386,347 | 13,567,744 | 14,954,091 | - |
| Total Assets | 13,795,309 | 18,671,342 | 32,466,651 | 54,759 |
| **Deferred Outflows of Resources** | | | | |
| Pensions*, Net of Accumulated Amortization* | 3,120,128 | - | 3,120,128 | - |
| OPEB, *Net of Accumulated Amortization* | 140,191 | - | 140,191 | - |
| Total Deferred Outflows of Resources | 3,260,319 | - | 3,260,319 | - |
| **Liabilities** | | | | |
| Accounts Payable | 189,374 | - | 189,374 | - |
| Accrued Liabilities | 333,451 | - | 333,451 | - |
| Accrued Salaries and Benefits | 533,007 | - | 533,007 | - |
| Accrued Interest Payable | - | 199,478 | 199,478 | - |
| Unearned Revenue | 607,306 | - | 607,306 | - |
| Noncurrent Liabilities | | | | |
| Due Within One Year | - | 285,000 | 285,000 | - |
| Due in More Than One Year | 1,996,600 | 24,859,242 | 26,855,842 | - |
| Net Pension Liability | 19,388,674 | - | 19,388,674 | - |
| Net OPEB Liability | 953,303 | - | 953,303 | - |
| Total Liabilities | 24,001,715 | 25,343,720 | 49,345,435 | - |
| **Deferred Inflows of Resources** | | | | |
| Pensions*, Net of Accumulated Amortization* | 12,910,429 | - | 12,910,429 | - |
| OPEB, *Net of Accumulated Amortization* | 205,657 | - | 205,657 | - |
| Total Deferred Inflows of Resources | 13,116,086 | - | 13,116,086 | - |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 1,386,347 | (9,205,528) | (7,819,181) | - |
| Restricted for: | | | | |
| Debt Service | - | 2,229,002 | 2,229,002 | - |
| Repair and Replacement | - | 304,148 | 304,148 | - |
| Emergencies | 575,000 | - | 575,000 | - |
| Unrestricted | (22,023,520) | - | (22,023,520) | 54,759 |
| Total Net Position | $ (20,062,173) | $ (6,672,378) | $ (26,734,551) | $ 54,759 |

*See Notes to Financial Statements.*

# STEM School Highlands Ranch and Academy

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

Statement of Activities

For the Year Ended June 30, 2020

| | | Program Revenues | | Net (Expense) Revenue and Change in Net Position | | | |
|---|---|---|---|---|---|---|---|
| | | | | Primary Government | | | Component Unit |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total | STEM Academy |
| **Primary Government** | | | | | | | |
| *Governmental Activities* | | | | | | | |
| Instruction | $ 7,418,097 | $ 356,243 | $ 147,718 | $ (6,914,136) | $ - | $ (6,914,136) | $ - |
| Supporting Services | 6,040,232 | 66,025 | 151,414 | (5,822,793) | - | (5,822,793) | - |
| Total Governmental Activities | 13,458,329 | 422,268 | 299,132 | (12,736,929) | - | (12,736,929) | - |
| *Business-Type Activities* | | | | | | | |
| Building Corporation | 5,021,656 | - | - | - | (5,021,656) | (5,021,656) | - |
| Total Primary Government | $ 18,479,985 | $ 422,268 | $ 299,132 | (12,736,929) | (5,021,656) | (17,758,585) | - |
| **Component Unit** | | | | | | | |
| STEM Academy | $ 276,874 | $ - | $ - | - | - | - | (276,874) |
| | **General Revenues** | | | | | | |
| | Per Pupil Revenue | | | 14,259,921 | - | 14,259,921 | - |
| | District Mill Levy | | | 2,031,088 | - | 2,031,088 | - |
| | Capital Construction | | | 487,709 | - | 487,709 | - |
| | Grants and Contributions not Restricted to Specific Programs | | | 148,801 | - | 148,801 | 311,986 |
| | Investment Income | | | 141,551 | 1,281 | 142,832 | - |
| | Others | | | 120 | - | 120 | - |
| | **Transfers** | | | (1,419,395) | 1,419,395 | - | - |
| | Total General Revenues and Transfers | | | 15,649,795 | 1,420,676 | 17,070,471 | 311,986 |
| | Change in Net Position | | | 2,912,866 | (3,600,980) | (688,114) | 35,112 |
| | **Net Position**, *Beginning of year* | | | (22,975,039) | (3,071,398) | (26,046,437) | 19,647 |
| | **Net Position**, *End of year* | | | $ (20,062,173) | $ (6,672,378) | $ (26,734,551) | $ 54,759 |

# STEM School Highlands Ranch and Academy

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

Balance Sheet

Governmental Fund

June 30, 2020

| | General |
|---|---|
| **Assets** | |
| Cash and Investments | $ 12,253,266 |
| Accounts Receivable | 97,985 |
| Prepaid Expenses | 57,711 |
| Total Assets | $ 12,408,962 |
| **Liabilities and Fund Balance** | |
| *Liabilities* | |
| Accounts Payable | $ 189,374 |
| Accrued Liabilities | 333,451 |
| Accrued Salaries and Benefits | 533,007 |
| Unearned Revenue | 607,306 |
| Total Liabilities | 1,663,138 |
| *Fund Balance* | |
| Nonspendable Prepaid Expenditures | 57,711 |
| Restricted for: | |
| Emergencies | 575,000 |
| Multi Year Obligations | 1,996,600 |
| Unrestricted, Unassigned | 8,116,513 |
| Total Fund Balance | 10,745,824 |
| Total Liabilities and Fund Balance | $ 12,408,962 |

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

| | |
|---|---|
| Total Fund Balance of the Governmental Fund | $ 10,745,824 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 1,386,347 |
| Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds. | |
| Forgivable Loan | (1,996,600) |
| Net pension liability | (19,388,674) |
| Pension-related deferred outflows of resources | 3,120,128 |
| Pension-related deferred inflows of resources | (12,910,429) |
| Net OPEB liability | (953,303) |
| OPEB-related deferred outflows of resources | 140,191 |
| OPEB-related deferred inflows of resources | (205,657) |
| Total Net Position of Governmental Activities | $ (20,062,173) |

*See Notes to Financial Statements.*

# STEM School Highlands Ranch and Academy

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

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

For the Year Ended June 30, 2020

| | General |
|---|---|
| **Revenues** | |
| Local Sources | $ 17,003,749 |
| State Sources | 767,236 |
| Federal Sources | 128,078 |
| Total Revenues | 17,899,063 |
| **Expenditures** | |
| Instruction | 8,290,645 |
| Supporting Services | 7,942,894 |
| Total Expenditures | 16,233,539 |
| **Excess of Revenues Over (Under) Expenditures** | 1,665,524 |
| **Other Financing Sources (Uses)** | |
| Proceeds from Forgivable Loan | 1,996,600 |
| Transfers Out | (82,463) |
| Total Other Financing Sources (Uses) | 1,914,137 |
| **Net Change in Fund Balance** | 3,579,661 |
| **Fund Balance**, *Beginning of year* | 7,166,163 |
| **Fund Balance**, *End of year* | $ 10,745,824 |

*See Notes to Financial Statements.*

# STEM School Highlands Ranch and Academy

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities

For the Year Ended June 30, 2020

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

| | |
|---|---|
| Net Change in Fund Balance of the Governmental Fund | $ 3,579,661 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital outlay | 416,446 |
| Depreciation expense | (224,666) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following. | |
| Proceeds from Forgivable Loan | (1,996,600) |
| Net pension liability | 4,137,921 |
| Pension-related deferred outflows of resources | (6,825,866) |
| Pension-related deferred inflows of resources | 3,824,172 |
| Net OPEB liability | 221,707 |
| OPEB-related deferred outflows of resources | (30,949) |
| OPEB-related deferred inflows of resources | (188,960) |
| Change in Net Position of Governmental Activities | $ 2,912,866 |

*See Notes to Financial Statements.*

# STEM School Highlands Ranch and Academy

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

Statement of Net Position

Proprietary Fund

June 30, 2020

| | Building Corporation |
|---|---|
| **Assets** | |
| *Current Assets* | |
| Restricted Cash and Investments | $ 2,732,628 |
| *Noncurrent Assets* | |
| Capital Assets, *Not Being Depreciated* | 2,370,970 |
| Capital Assets, *Net of Accumulated Depreciation* | 13,567,744 |
| Total Noncurrent Assets | 15,938,714 |
| Total Assets | 18,671,342 |
| **Liabilities** | |
| *Current Liabilities* | |
| Accrued Interest Payable | 199,478 |
| Loans Payable, *Current Portion* | 285,000 |
| Total Current Liabilities | 484,478 |
| *Noncurrent Liabilities* | |
| Loans Payable | 24,859,242 |
| Total Liabilities | 25,343,720 |
| **Net Position** | |
| Net Investment in Capital Assets | (9,205,528) |
| Restricted for Debt Service | 2,229,002 |
| Restricted for Repair and Replacement | 304,148 |
| Total Net Position | $ (6,672,378) |

# STEM School Highlands Ranch and Academy

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

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Fund

For the Year Ended June 30, 2020

| | Building Corporation |
|---|---|
| **Operating Revenues** | |
| Lease Income | $ 1,336,932 |
| Total Operating Revenues | 1,336,932 |
| **Operating Expenses** | |
| Depreciation | 613,948 |
| Debt Service | |
| Interest and Fiscal Charges | 1,562,643 |
| Total Operating Expenses | 2,176,591 |
| **Net Operating Income (Loss)** | (839,659) |
| **Nonoperating Revenues (Expenses)** | |
| Investment Income | 1,281 |
| Loss from Disposal of Assets | (2,845,065) |
| Total Nonoperating Revenues (Expenses) | (2,843,784) |
| **Net Income (Loss) Before Transfers** | (3,683,443) |
| Transfers In | 82,463 |
| **Change in Net Position** | (3,600,980) |
| **Net Position**, *Beginning of year* | (3,071,398) |
| **Net Position**, *End of year* | $ (6,672,378) |

*See Notes to Financial Statements.*

# STEM School Highlands Ranch and Academy

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

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2020

| | | Building Corporation |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Lease Payments Received | $ | 1,336,932 |
| Loan Principal Paid | | 7,825,000 |
| Loan Interest and Fees Paid | | (727,213) |
| Net Cash Provided (Used) by Operating Activities | | 8,434,719 |
| **Cash Flows From Capital and Related Financing Activities** | | |
| Acquisition of Capital Assets | | (7,208,818) |
| Transfers from the School | | 82,463 |
| Net Cash Provided (used) by Financing Activities | | (7,126,355) |
| **Cash Flows From Investing Activities** | | |
| Investment Income Received | | 1,281 |
| **Net Change in Cash and Cash Equivalents** | | 1,309,645 |
| **Cash and Cash Equivalents**, *Beginning of year* | | 1,422,983 |
| **Cash and Cash Equivalents**, *End of year* | $ | 2,732,628 |
| **Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:** | | |
| Net Operating Income (Loss) | $ | (839,659) |
| Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation Expense | | 613,948 |
| Amortization of Discount | | 3,817 |
| Amortization of Loan Premium | | 764,941 |
| Changes in Assets and Liabilities | | |
| Accrued Interest Payable | | 66,672 |
| Loans Payable | | 7,825,000 |
| Net Cash Provided (Used) by Operating Activities | $ | 8,434,719 |

## Note 1: Summary of Significant Accounting Policies

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

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

***Reporting Entity***

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

The School includes the LightHouse Building Corporation (the Corporation) within its reporting entity. The Corporation was organized to own property or interests therein to be leased to the School. The Corporation is blended into the School's financial statements as an enterprise fund and does not issue separate financial statements.

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

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

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

***Government-wide and Fund Financial Statements***

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

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

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major funds:

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

*Building Corporation* - This fund is used to account for the financial activities of the Corporation, including facilities acquisition and construction, and the related debt service.

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

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

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

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

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

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

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

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

| | |
|---|---|
| Leasehold Improvements | 7 years |
| Land Improvements | 10 years |
| Buildings | 40 years |
| Building Improvements | 10 - 15 years |
| Equipment | 2 - 10 years |

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

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

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts and accounting losses resulting from debt refunding's are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

*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 and deductions from the SCHDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SCHDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees. Investments are reported at fair value.

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

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

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200 Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of 2020.

*Postemployment Benefits Other Than Pensions (OPEB)* - The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan 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 and deductions from the HCTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, the HCTF recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees. Investments are reported at fair value.

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

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

***Risk Management***

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

***Subsequent Events***

The School has evaluated subsequent events through October 12, 2020, the date the financial statements were available to be issued.

## Note 2: Stewardship, Compliance and Accountability

***Accountability***

At June 30, 2020, the Corporation had a negative net position of $6,672,378. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

At June 30, 2020, the Academy had a net position of $54,749.

## Note 3: Deposits and Investments

A summary of cash and investments at June 30, 2020, follows:

| | | |
|---|---|---|
| Petty Cash | $ | 200 |
| Deposits | | 2,947,848 |
| Investments | | 12,092,605 |
| Total | $ | 15,040,653 |

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

| | | |
|---|---|---|
| Cash and Investments | $ | 12,308,025 |
| Restricted Cash and Investments | | 2,732,628 |
| Total | $ | 15,040,653 |

***Deposits***

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2020, the School had bank deposits of $2,863,348 collateralized with securities held by the financial institution's agent but not in the School's name.

***Investments***

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

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities

## Note 3: Deposits and Investments (Continued)

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

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

*Fair Value Measurements* - At June 30, 2020, the School's investment in Colotrust and the Corporation's investment in a money market fund were reported at the net asset value per share.

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

*Credit Risk* - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations. At June 30, 2020, the Corporation had $2,732,628 invested in a money market fund rated AAAm by Standard and Poor's.

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

*Local Government Investment Pool* - At June 30, 2020, the School had $9,359,977 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at $1. Colotrust is rated AAAm by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

***Restricted Cash and Investments***

At June 30, 2020, the Corporation held investments of $2,732,628 restricted for future debt service and building repair and replacement.

## Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2020, is summarized below. Depreciation and amortization are combined in the following table.

| **Governmental Activities** | **Balance 06/30/19** | **Additions** | **Deletions** | **Balance 06/30/20** |
|---|---|---|---|---|
| Capital Assets, *Not Being Depreciated* | | | | |
| Construction in Progress | $ 260,505 | $ 416,446 | $ (676,951) | $ - |
| Capital Assets, *Being Depreciated* | | | | |
| Building Improvements | - | 663,998 | - | 663,998 |
| Leasehold Improvements | 743,768 | - | - | 743,768 |
| Equipment | 764,512 | 12,953 | - | 777,465 |
| Total Capital Assets, *Being Depreciated* | 1,508,280 | 676,951 | - | 2,185,231 |
| *Less Accumulated Depreciation* | | | | |
| Building Improvements | - | (44,267) | - | (44,267) |
| Leasehold Improvements | (90,884) | (54,516) | - | (145,400) |
| Equipment | (483,334) | (125,883) | - | (609,217) |
| Total Accumulated Depreciation | (574,218) | (224,666) | - | (798,884) |
| Total Capital Assets, *Being Depreciated* , *Net* | 934,062 | 452,285 | - | 1,386,347 |
| Governmental Activities Capital Assets, *Net* | $ 1,194,567 | $ 868,731 | $ (676,951) | $ 1,386,347 |

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

| **Business-Type Activities** | **Balance 06/30/19** | **Additions** | **Deletions** | **Balance 06/30/20** |
|---|---|---|---|---|
| Capital Assets, *Not Being Depreciated* | | | | |
| Land | $ 2,370,970 | $ - | $ - | $ 2,370,970 |
| Capital Assets, *Being Depreciated* | | | | |
| Land Improvements | 365,936 | - | - | 365,936 |
| Buildings | 5,220,614 | 7,208,818 | - | 12,429,432 |
| Building Improvements | 7,404,869 | - | (3,602,301) | 3,802,568 |
| Equipment | 100,875 | - | - | 100,875 |
| Total Capital Assets, *Being Depreciated* | 13,092,294 | 7,208,818 | (3,602,301) | 16,698,811 |
| *Less Accumulated Depreciation* | | | | |
| Land Improvements | (256,156) | (109,780) | - | (365,936) |
| Buildings | (913,607) | (250,663) | - | (1,164,270) |
| Building Improvements | (2,003,717) | (253,505) | 757,236 | (1,499,986) |
| Equipment | (100,875) | - | - | (100,875) |
| Total Accumulated Depreciation | (3,274,355) | (613,948) | 757,236 | (3,131,067) |
| Total Capital Assets, *Being Depreciated, Net* | 9,817,939 | 6,594,870 | (2,845,065) | 13,567,744 |
| Business-Type Activities Capital Assets, *Net* | $ 12,188,909 | $ 6,594,870 | $ (2,845,065) | $ 15,938,714 |

## Note 5: Long-Term Debt

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

| | Balance 6/30/19 | Additions | Payments | Balance 6/30/20 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| PPP Loan | $ - | $ 1,996,600 | $ - | $ 1,996,600 | $ - |
| **Business-Type Activities** | | | | | |
| 2014 Building Loan | $ 13,910,000 | $ - | $ (215,000) | $ 13,695,000 | $ 220,000 |
| 2014 Loan Discount | (114,516) | - | 3,817 | (110,699) | - |
| 2016 Building Loan | 2,755,000 | - | (2,755,000) | - | - |
| 2019 Building Loan | - | 10,795,000 | - | 10,795,000 | 65,000 |
| 2019 Bond Premium | - | 777,906 | (12,965) | 764,941 | - |
| Total | $ 16,550,484 | $ 11,572,906 | $ (2,979,148) | $ 25,144,242 | $ 285,000 |

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

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

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

On May 13, 2016, CECFA issued $3,000,000 Charter School Taxable Revenue Bonds, Series 2016. Bond proceeds were loaned to the Corporation for certain renovations, improvements, and equipment relating to the School's educational facility. Interest accrues on the bonds at rates ranging from 4% to 5% per annum and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2036.

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

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

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

Future debt service requirements for the bonds are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 285,000 | $ 1,134,894 | $ 1,419,894 |
| 2022 | 305,000 | 1,180,868 | 1,485,868 |
| 2023 | 315,000 | 1,168,468 | 1,483,468 |
| 2024 | 330,000 | 1,155,668 | 1,485,668 |
| 2025 | 345,000 | 1,142,268 | 1,487,268 |
| 2026-2030 | 1,950,000 | 5,471,042 | 7,421,042 |
| 2031-2035 | 2,435,000 | 4,974,062 | 7,409,062 |
| 2036-2040 | 3,090,000 | 4,302,910 | 7,392,910 |
| 2041-2045 | 3,945,000 | 3,432,785 | 7,377,785 |
| 2046-2050 | 5,040,000 | 2,310,062 | 7,350,062 |
| 2051-2055 | 6,450,000 | 998,750 | 7,448,750 |
| Total | $ 24,490,000 | $ 27,271,777 | $ 51,761,777 |

## Note 6: Interfund Transactions

During the year ended June 30, 2020, the General Fund transferred $82,463 to the Corporation to fund the repair and replacement reserve, as required by the Corporation's loan agreement (See Note 5).

## Note 7: Defined Benefit Pension Plan

### ***General Information***

*Plan Description* - The School contributes to the SCHDTF, a cost-sharing multiple-employer defined benefit pension plan administered by PERA. All employees of the School participate in the SCHDTF. 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 financial report (CAFR) that includes information on the SCHDTF that may be obtained at www.copera.org/investments/pera-financial-reports.

*Benefits Provided* - The SCHDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure under which the member retires, the benefit option selected at retirement, and age at retirement.

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

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

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the a) highest average salary over three years multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the retiring employee's contribution account plus an equal match on eligible amounts as of the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors.

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

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

As of December 31, 2019, retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) in certain years, referred to as annual increases in the C.R.S., once certain criteria are met. Pursuant to SB 18-200, the annual increase for 2019 is 0.00 percent for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase of 1.25 percent adjusted by the automatic adjustment provision (AAP) pursuant to C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment on or after January 1, 2007, will receive the lessor of an annual increase of 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF. The AAP may raise or lower the annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

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

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

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

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

*Contributions* - The School, eligible employees 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. The contribution rate for eligible employees is 8.75% of covered salaries during the period of July 1, 2019 through June 30, 2020. The School's contribution rate was 20.40% of covered salaries for July 1, 2019 through June 30, 2020. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 24-51-414, the State is required to contribute $225 million 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. During the year ended June 30, 2020, the direct distribution for the SCHDTF was $126,505,213.

Subsequent to the SCHDTF's December 31, 2019, measurement date, HB 20-1379 Suspend Direct Distribution to PERA Public Employees Retirement Association for 2020-21 Fiscal Year, was passed into law during the 2020 legislative session and signed by Governor Polis on June 29, 2020. This bill suspends the July 1, 2020, $225 million direct distribution allocated to the State, School, Judicial, and DPS Divisions, as required under Senate Bill 18-200.

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. The School's contributions to the SCHDTF for the year ended June 30, 2020, were $1,532,742, equal to the required contributions.

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

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

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

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

At June 30, 2020, the School reported a net pension liability of $19,388,674, representing its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the School were as follows:

| | |
|---|---|
| School's proportionate share of net pension liability | $ 21,847,880 |
| The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School | (2,459,206) |
| Proportionate share of the net pension liability | $ 19,388,674 |

At December 31, 2019, the School's proportion was 0.1297788195%, which was a decrease 0.0030868462% from its proportion measured at December 31, 2018.

For the year ended June 30, 2020, the School recognized pension expense of $408,805 which includes $77,788 of 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 |
|---|---|---|
| Differences between expected and actual experience | $ 1,056,693 | $ - |
| Changes of assumptions and other inputs | 553,516 | 8,794,517 |
| Net difference between projected and actual earnings on plan investments | - | 2,296,780 |
| Changes in proportion | 586,686 | 1,819,132 |
| Contributions subsequent to the measurement date | 923,233 | - |
| Total | $ 3,120,128 | $ 12,910,429 |

## 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)*

School contributions subsequent to the measurement date of $923,233 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30, | |
|---|---|
| 2021 | $ (5,544,849) |
| 2022 | (4,327,681) |
| 2023 | (59,707) |
| 2024 | (781,297) |
| Total | $ (10,713,534) |

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2018, determined the total pension liability using the following actuarial assumptions and other inputs.

| | |
|---|---|
| Price inflation | 2.4% |
| Real wage growth | 1.1% |
| Wage inflation | 3.5% |
| Salary increases, including wage inflation | 3.5% - 9.7% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Post-retirement benefit increases: | |
| Hired prior to 1/1/2007 | 1.25% |
| Hired after 12/31/2006 | ad hoc |

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

Post-retirement non-disabled mortality assumptions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments, adjusted as follows:

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

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

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

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

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

The 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.

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

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed 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)*

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, as follows:

| 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 the additional 0.50% resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

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

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions 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.
- The projected benefit payments reflect the lowered annual increase cap, from 1.50% to 1.25% resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension 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 percent.

## 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 School's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $ 25,713,533 | $ 19,388,674 | $ 14,078,404 |

*Pension Plan Fiduciary Net Position* - Detailed information about the SCHDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

## Note 8: Postemployment Healthcare Benefits

***General Information***

*Plan Description* - All employees of the School are eligible to receive postemployment benefits other than pensions (OPEB) through the HCTF, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. PERA issues a publicly available financial report that includes information on the HCTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

## Note 8: Postemployment Healthcare Benefits (Continued)

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

*Benefits Provided* - The HCTF provides a healthcare premium subsidy to eligible 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.

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

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

## Note 8: Postemployment Healthcare Benefits (Continued)

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

*Contributions* - As established by Title 24, Article 51, Section 208 of the CRS, 1.02% of the School's contributions to the SCHDTF (see Note 7) is apportioned to the HCTF. No employee contributions are required. These contribution requirements are established and may be amended by the State Legislature. 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 for the year ended June 30, 2020, was $80,671, equal to the required amount.

***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 net OPEB liability of $953,303, representing its proportionate share of the net OPEB liability of the HCTF. The net OPEB liability was measured at 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 the School's contributions to the HCTF for the calendar year ended December 31, 2019, relative to the contributions of all participating employers. At December 31, 2019, the School's proportion 0.0848135508%, which was a decrease of 0.0015498457% from its proportion measured at December 31, 2018.

For the year ended June 30, 2020, the School recognized OPEB expense of $71,586. 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 |
|---|---|---|
| Differences between expected and actual experience | $ 3,165 | $ 160,189 |
| Changes in assumptions and other inputs | 7,909 | - |
| Net difference between projected and actual earnings on plan investments | - | 15,913 |
| Changes in proportion | 80,708 | 29,555 |
| Contributions subsequent to the measurement date | 48,409 | - |
| Total | $ 140,191 | $ 205,657 |

## Note 8: Postemployment Healthcare Benefits (Continued)

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

School contributions subsequent to the measurement date of $48,409 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

| Year Ended June 30, | | |
|---|---|---|
| 2021 | $ | (14,141) |
| 2022 | | (14,141) |
| 2023 | | (9,529) |
| 2024 | | (39,346) |
| 2025 | | (34,644) |
| Thereafter | | (2,074) |
| Total | $ | (113,875) |

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2018, determined the total OPEB liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

| | |
|---|---|
| Price inflation | 2.4% |
| Real wage growth | 1.1% |
| Wage inflation | 3.5% |
| Salary increases, including wage inflation | 3.5% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Health care cost trend rates: | |
| Service-based premium subsidy | 0.0% |
| Medicare plans: | |
| 5.60% for 2019, gradually decreasing to 4.50% in 2029 | |
| Medicare Part A premiums: | |
| 3.50% for 2019, gradually increasing to 4.50% in 2029 | |

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: Postemployment Healthcare Benefits (Continued)

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

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

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

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

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

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. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

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

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

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

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

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

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

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

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

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

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as presented previously (see Note 7).

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

## Note 8: Postemployment Healthcare Benefits (Continued)

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

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

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

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

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate share of the net OPEB liability | $ 1,077,901 | $ 953,303 | $ 846,745 |

## Note 8: Postemployment Healthcare Benefits (Continued)

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

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates* - The following presents the School's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, ranging from 2.5% to 6.5%, as well as the School's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
|---|---|---|---|
| Proportionate share of the net OPEB liability | $ 930,657 | $ 953,303 | $ 979,471 |

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

## Note 9: Commitments and Contingencies

***Claims and Judgments***

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2020, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

***TABOR Amendment***

In November 1992, Colorado voters approved the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2020, the reserve was reported as restricted fund balance in the General Fund, in the amount of $575,000.

## Note 9: Commitments and Contingencies (Continued)

***Lease Agreement***

On May 12, 2015, the School entered into an agreement to lease an adjacent building to be used for elementary classrooms. Monthly rental payments ranging from $33,333 to $78,956 commenced on September 1, 2015. The lease expires on August 31, 2025. The agreement includes an option to purchase that may be exercised at any time beginning on August 31, 2020. For the year ended June 30, 2020, the School has purchased the building. For the year ended June 30,2020, the school paid rent of $340,829 as required by this agreement. There will be no more rent payment after June 30,2020.

## Note 10: Subsequent Event

In October 2020, the School purchased the building next door to the School amounting to $2,240,000.

Subsequent to year-end, the United States of America and the State of Colorado have declared an emergency associated with the Coronavirus Pandemic. The School has been economically impacted by the event, however the full economic effect has yet to be determined.

# Required Supplementary Information

# STEM School Highlands Ranch and Academy

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

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Public Employees' Retirement Association of Colorado

School Division Trust Fund

For the Year Ended June 30, 2020

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

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

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

*(Continued)*

# STEM School Highlands Ranch and Academy

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

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Contributions
Public Employees' Retirement Association of Colorado
School Division Trust Fund
For the Year Ended June 30, 2020
(Continued)

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

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

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

# STEM School Highlands Ranch and Academy

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

Required Supplementary Information

Schedule of Proportionate Share of the Net OPEB Liability and Contributions

Public Employees' Retirement Association of Colorado

Health Care Trust Fund

For the Year Ended June 30, 2020

| | 12/31/19 | 12/31/18 | 12/31/17 |
|---|---|---|---|
| **Proportionate Share of the Net OPEB Liability** | | | |
| School's Proportion of the Net OPEB Liability | 0.084813551% | 0.086363397% | 0.0821649891% |
| School's Proportionate Share of the Net OPEB Liability | $ 953,303 | $ 1,175,010 | $ 1,067,816 |
| School's Covered Payroll | $ 7,591,140 | $ 7,304,336 | $ 6,670,537 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 13% | 16% | 16% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 24% | 0% | 18% |

| | 6/30/20 | 6/30/19 | 6/30/18 |
|---|---|---|---|
| **School Contributions** | | | |
| Statutorily Required Contribution | $ 80,671 | $ 74,504 | $ 71,881 |
| Contributions in Relation to the Statutorily Required Contribution | (80,671) | (74,504) | (71,881) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| School's Covered Payroll | $ 7,908,884 | $ 8,086,030 | $ 8,549,973 |
| Contributions as a Percentage of Covered Payroll | 1.02% | 0.92% | 0.84% |

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

# STEM School Highlands Ranch and Academy
*(A Component Unit of Douglas County School District RE.1)*
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2020

| | Original Budget | Final Budget | Actual | Variance *Positive (Negative)* |
|---|---|---|---|---|
| **Revenues** | | | | |
| *Local Sources* | | | | |
| Per Pupil Revenue | $ 14,770,123 | $ 14,043,852 | $ 14,259,921 | $ 216,069 |
| District Mill Levy | 2,160,038 | 2,061,925 | 2,031,088 | (30,837) |
| Student Fees and Activities | 360,888 | 325,380 | 356,243 | 30,863 |
| Contributions and Donations | 50,000 | 150,000 | 148,921 | (1,079) |
| Investment Income | 85,000 | 85,000 | 141,551 | 56,551 |
| Rental Income | 54,000 | 54,000 | 66,025 | 12,025 |
| Total Local Sources | 17,480,049 | 16,720,157 | 17,003,749 | 283,592 |
| *State Sources* | | | | |
| Grants | 88,541 | 84,569 | 279,527 | 194,958 |
| Capital Construction | 474,155 | 452,882 | 487,709 | 34,827 |
| Total State Sources | 562,696 | 537,451 | 767,236 | 229,785 |
| *Federal Sources* | | | | |
| Grants | - | - | 128,078 | 128,078 |
| Total Federal Sources | - | - | 128,078 | 128,078 |
| Total Revenues | 18,042,745 | 17,257,608 | 17,899,063 | 641,455 |
| **Expenditures** | | | | |
| Salaries | 8,396,345 | 9,024,100 | 8,549,973 | 474,127 |
| Employee Benefits | 2,335,761 | 2,234,861 | 2,349,296 | (114,435) |
| Purchased Services | 4,276,423 | 4,185,893 | 4,008,730 | 177,163 |
| Supplies | 626,030 | 598,006 | 420,453 | 177,553 |
| Property | 1,166,950 | 633,200 | 873,394 | (240,194) |
| Other | 867,510 | 275,200 | 31,693 | 243,507 |
| Total Expenditures | 17,669,019 | 16,951,260 | 16,233,539 | 717,721 |
| **Excess of Revenues Over (Under) Expenditures** | 373,726 | 306,348 | 1,665,524 | 1,359,176 |
| **Other Financing Sources (Uses)** | | | | |
| Proceeds from Forgivable Loan | - | - | 1,996,600 | 1,996,600 |
| Transfers Out | - | - | (82,463) | (82,463) |
| Total Other Financing Sources (Uses) | - | - | 1,914,137 | 1,914,137 |
| **Net Change in Fund Balance** | 373,726 | 306,348 | 3,579,661 | 3,273,313 |
| **Fund Balance**, *Beginning of year* | 7,280,630 | 7,166,163 | 7,166,163 | - |
| **Fund Balance**, *End of year* | $ 7,654,356 | $ 7,472,511 | $ 10,745,824 | $ 3,273,313 |

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

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

***Changes in Assumptions and Other Inputs***

For the year ended June 30, 2020, the total pension liability was determined by an actuarial valuation as of December 31, 2018. The following revised economic and demographic assumptions were effective as of December 31, 2018.

- Investment rate of return assumption of 7.25% per year, compounded annually. This assumption did not change from the prior year.
- Price inflation assumption of 2.4% per year. This assumption did not change from the prior year.
- Real rate of investment return assumption increased from 4.78% per year, net of investment expenses, to 7.25%. The rate reflected in the roll-forward calculation of the collective total pension liability to the measurement date was 7.25%. This assumption did not change from prior year.
- Wage inflation assumption of 3.5% per year. This assumption did not change from the prior year.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables.

## Note 2: Stewardship, Compliance and Accountability

***Budgets and Budgetary Accounting***

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

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

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