*Knowledge Quest Academy*
**Milliken, Colorado**

**Financial Statements**

**For the Year Ended June 30, 2020**

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LAUER, SZABO &
ASSOCIATES, PC
Certified Public Accountants
205 Main St. · P.O. Box 1886 · Sterling, CO 80751-7886
Phone 970-522-2218 · FAX 970-522-2220

# Independent Auditors' Report

Board of Directors
Knowledge Quest Academy
Milliken, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knowledge Quest Academy (the Academy), a component unit of Weld County School District RE-5J, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2020, and the respective changes in financial position for the year then ended in conformity 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, budgetary comparison information and historical pension other post-employment benefit plan 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado
November 20, 2020

This section of Knowledge Quest Academy's (the Academy) annual financial report presents its discussion and analysis of the District's financial performance during the year ended June 30, 2020.

## Financial Highlights

- The liabilities and deferred inflows of resources of Knowledge Quest Academy exceeded its assets and deferred outflows of resources at the close of the fiscal year by $2,875,476 (net position - deficit).
- Knowledge Quest Academy's general fund ending fund balance rose to $2,311,636, an increase of $303,280.

### Overview of Financial Statements

The discussion and analysis is intended to serve as an introduction to Knowledge Quest Academy's basic financial statements. A comparison to the prior year's activity is provided in the document. The basic financial statements consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information. This report also contains required supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with information about Knowledge Quest Academy as a whole using accounting methods similar to those used by private-sector businesses.

The statement of net position includes all of Knowledge Quest Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Knowledge Quest Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of activities distinguishes functions/programs of Knowledge Quest Academy supported primarily by per pupil revenue (PPR) passed through from the Weld County School District RE-5J.

### 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. Knowledge Quest Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

Most of Knowledge Quest Academy's basic services are included in the governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance Knowledge Quest Academy's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the government's near-term financing decisions.

Knowledge Quest Academy maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the general fund, which is considered to be a major fund. Knowledge Quest Academy adopts an annual appropriated budget. A budget comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

### Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements may be found on pages 18-49 of this report.

### Financial Analysis of Knowledge Quest Academy as a Whole

As noted earlier, net position may serve over time as a useful indicator of Knowledge Quest Academy's financial position.

The following table provides a summary of the Academy's net position (deficit) as of June 30, 2020 and 2019.

| | Governmental Activities | | $ Change |
|---|---|---|---|
| | 2020 | 2019 | |
| Current and other assets | $ 3,272,069 | $ 2,762,599 | $ 509,470 |
| Capital assets | 4,099,590 | 4,186,071 | (86,481) |
| Total assets | 7,371,659 | 6,948,670 | 422,989 |
| Deferred outflows of resources | 558,275 | 1,957,342 | (1,399,067) |
| Total assets and deferred outflows of resources | $ 7,929,934 | $ 8,906,012 | $ (976,078) |
| Long-term liabilities | $ 7,907,542 | $ 8,862,765 | $ (955,223) |
| Other liabilities | 399,560 | 200,994 | 198,566 |
| Total liabilities | 8,307,102 | 9,063,759 | (756,657) |
| Deferred inflows of resources | 2,498,308 | 3,555,240 | (1,056,932) |
| Restricted net position | 612,148 | 630,603 | (18,455) |
| Unrestricted net position (deficit) | (3,487,624) | (4,343,590) | 855,966 |
| Total net position (deficit) | (2,875,476) | (3,712,987) | 837,511 |
| Total liabilities, deferred inflows of resources and net position | $ 7,929,934 | $ 8,906,012 | $ (976,078) |

The following table presents a summary of the Academy's change in net position for the fiscal years ended June 30, 2020 and 2019.

| | Governmental Activities | | $ Change |
|---|---|---|---|
| | 2020 | 2019 | |
| Charges for services | $ 21,238 | $ 65,598 | $ (11,935) |
| Operating grants and contributions | 195,816 | 247,876 | 52,577 |
| Per pupil operating revenue | 3,240,888 | 3,004,541 | 194,151 |
| District pass-through mill levy override funds | 49,020 | | |
| Miscellaneous | 95,787 | 92,613 | 5,861 |
| Total revenues | 3,602,749 | 3,410,628 | 240,654 |
| Instruction | 1,887,148 | 1,673,958 | (1,658,076) |
| Pupil instruction and services | 54,656 | 50,597 | (95,725) |
| Administrative and business services | 233,953 | 214,171 | (200,840) |
| Maintenance | 280,227 | 291,734 | (27,445) |
| Other | 323,883 | 334,584 | 40,821 |
| Total expenditures | 2,779,867 | 2,565,044 | (1,941,265) |
| Change in net position | $ 822,882 | $ 845,584 | $ 2,181,919 |

The primary source of operating revenue for Knowledge Quest Academy comes from the School Finance Act of 1994, as amended (SFA). Under the SFA Knowledge Quest Academy received $8,062 per funded student. In fiscal year 2019-19 the funded pupil count was 402.0. Funding for the SFA comes from property taxes, specific ownership tax and state equalization.

## Governmental Funds

The focus of Knowledge Quest Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of resources. Such information is useful in assessing Knowledge Quest Academy's financing requirements. In particular, unassigned fund balance may serve as a useful measure of Knowledge Quest Academy's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, Knowledge Quest Academy's governmental funds reported combined ending fund balances of $2,949,211, an increase of $293,316 in comparison with the prior year.

## General Fund Budget Highlights

Knowledge Quest Academy's budget is prepared according to Colorado law and is based on accounting for transactions under generally accepted accounting principles. The Academy was able to increase their net position by approximately $300,000 in the General Fund and the KQA Building Corporation maintained their strong fund balance of $616,000.

**Capital Assets and Debt Administration**

**Capital Assets**

The Academy's net investment in capital assets as of June 30, 2020, amounts to $4,099,590. This investment in capital assets includes land, buildings and improvements, and equipment.

The Academy's total capital assets at June 30, 2020, net of accumulated depreciation, were as follows:

| | |
|---|---|
| Land | $ 260,000 |
| Buildings and improvements | 3,837,444 |
| Equipment | 2,146 |
| Total | $ 4,099,590 |

Additional information on the Academy's capital assets can be found in Note D, page 26, of the basic financial statements.

**Debt Administration**

In August, 2005, the Colorado Educational and Cultural Facilities Authority (CECFA) issued $5,840,000 in Charter School Revenue Bonds, Series 2005, bearing interest at a rate of 6.50% with a final payment due May 1, 2036. The proceeds from the bonds were loaned to the KQA Building Corporation under a lease agreement to construct the Academy's school facility. The Academy is obligated under a lease agreement to make monthly lease payments to the KQA Building Corporation for use of the building. The KQA Building Corporation is required to make semi-annual payments to the Trustee for payment of the bonds. The CECFA issued $4,715,000 in Charter School Refunding Revenue Bonds, Series 2019, due in annual installments beginning in fiscal year 2020 ranging from $175,000 to $310,000, bearing interest at a rate of 2.990%, payable semi-annually on January 1st and July 1st.

At year-end, the Academy's long-term debt of $7,907,542 represented its Charter School revenue bonds of $4,175,000, net pension liability of $3,557,627 and net OPEB liability of $174,915.

**Economic Factors**

The Weld County School District RE-5J, which includes Knowledge Quest Academy, has experienced enrollment growth in previous years. The overall enrollment growth is stable with an average of approximately 3.1% growth each year over the last 3 years. Enrollment for 2020-21 is expected to decrease due to the COVID-19 pandemic. The District is anticipating recovering many of the students who will not enroll in 2020-21 and be close to the 2019-20 enrollment levels for 2021-22. After the COVID-19 pandemic subsides, the District is projecting to continue enrollment increases of approximately 1% for the next couple of years.

The Weld County School District RE-5J assessed valuation has increased approximately 26% over the last three years. The total assessed valuation will decrease by 20.38% next year due to the impact the COVID-19 pandemic has had on the local oil & gas industry and the large percentage of the District's assessed valuation that comes from that sector.

**Contacting the Academy's Financial Management**

This financial report is designed to provide Knowledge Quest Academy's citizens, taxpayers, parents, investors and creditors with a general overview of Knowledge Quest Academy's finances and to demonstrate Knowledge Quest Academy's accountability for the money it receives. If you have any questions or need additional information, please contact Knowledge Quest Academy at 705 S. School House Drive, Milliken, Colorado 80543.

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## Basic Financial Statements

The basic financial statements of the Academy include the following:

*Government-wide financial statements.* The government-wide financial statements display information about the reporting government as a whole.

*Fund financial statements.* The fund financial statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds.

*Notes to the financial statements.* The notes communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

**KNOWLEDGE QUEST ACADEMY**
**Statement of Net Position**
**June 30, 2020**

| | Governmental Activities |
|---|---|
| Assets | |
| Cash | $ 3,271,860 |
| Receivables | 209 |
| Capital assets, net of depreciation | 4,099,590 |
| Total assets | 7,371,659 |
| Deferred outflows of resources | |
| Deferred charges on refundings of bonds | 39,045 |
| Pension and other post-employment benefit deferrals | 519,230 |
| Total deferred outflows of resources | 558,275 |
| Total assets and deferred outflows of resources | $ 7,929,934 |
| Liabilities | |
| Due to school district | $ 185,461 |
| Accounts payable | 9,250 |
| Accrued salaries and benefits | 124,701 |
| Unearned revenue | 3,446 |
| Accrued interest | 76,702 |
| Noncurrent liabilities | |
| Due within one year | 190,000 |
| Due in more than one year | 7,717,542 |
| Total liabilities | 8,307,102 |
| Deferred inflows of resources | |
| Pension and other post-employment benefit deferrals | 2,498,308 |
| Total deferred inflows of resources | 2,498,308 |
| Net position | |
| Restricted for emergencies | 108,000 |
| Restricted for debt service | 504,148 |
| Unrestricted (deficit) | (3,487,624) |
| Total net position (deficit) | (2,875,476) |
| Total liabilities, deferred inflows of resources and net position | $ 7,929,934 |

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

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**KNOWLEDGE QUEST ACADEMY**
**Statement of Activities**
**For the Year Ended June 30, 2020**

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities | | | | |
| Instruction | $ 1,887,148 | $ 21,238 | $ 83,718 | |
| Supporting services | | | | |
| Students | 34,993 | | | |
| Instructional staff | 19,663 | | | |
| General administration | 2,152 | | | |
| School administration | 177,836 | | | |
| Business services | 53,965 | | | |
| Operations and maintenance | 280,227 | | | $ 112,098 |
| Central support services | 52,672 | | | |
| Food service operations | 819 | | | |
| Unallocated depreciation * | 112,557 | | | |
| Interest and fiscal charges | 157,835 | | | |
| Total governmental activities | $ 2,779,867 | $ 21,238 | $ 83,718 | $ 112,098 |

General revenues
Per pupil operating revenue
District pass-through mill levy override funds
Miscellaneous

Total general revenues

Change in net position

Net position (deficit) at beginning of year, as restated

Net position (deficit) at end of year

* This amount excludes depreciation included in the direct expenses of the various programs.

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

| Net (Expenses) Revenues and Changes in Net Position |
| --- |
| Governmental Activities |
| $ (1,782,192) |
| (34,993) |
| (19,663) |
| (2,152) |
| (177,836) |
| (53,965) |
| (168,129) |
| (52,672) |
| (819) |
| (112,557) |
| (157,835) |
| (2,562,813) |
| 3,240,888 |
| 49,020 |
| 95,787 |
| 3,385,695 |
| 822,882 |
| (3,698,358) |
| $ (2,875,476) |

**KNOWLEDGE QUEST ACADEMY**
**Balance Sheet**
**Governmental Funds**
**June 30, 2020**

| | General Fund | KQA Building Corporation | Other Governmental Fund | Total Governmental Funds |
|---|---|---|---|---|
| Assets | | | | |
| Cash | $ 2,634,285 | $ 616,104 | $ 21,471 | $ 3,271,860 |
| Due from school district | 209 | | | 209 |
| Total assets | $ 2,634,494 | $ 616,104 | $ 21,471 | $ 3,272,069 |
| Liabilities | | | | |
| Due to school district | $ 185,461 | | | $ 185,461 |
| Accounts payable | 9,250 | | | 9,250 |
| Accrued salaries and benefits | 124,701 | | | 124,701 |
| Unearned grant revenue | 3,446 | | | 3,446 |
| Total liabilities | 322,858 | $ - | $ - | 322,858 |
| Fund balance | | | | |
| Restricted for emergencies | 108,000 | | | 108,000 |
| Restricted for debt service | | 504,148 | | 504,148 |
| Committed to pupil activities | | | 21,471 | 21,471 |
| Assigned to special projects | | 111,956 | | 111,956 |
| Unassigned | 2,203,636 | | | 2,203,636 |
| Total fund balance | 2,311,636 | 616,104 | 21,471 | 2,949,211 |
| Total liabilities and fund balance | $ 2,634,494 | $ 616,104 | $ 21,471 | $ 3,272,069 |

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

**KNOWLEDGE QUEST ACADEMY**
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**
**June 30, 2020**

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Total fund balance - governmental funds | $ 2,949,211 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | 4,099,590 |
| Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds. | (76,702) |
| Long-term liabilities and the related deferred outflows and inflows of resources are not due and payable in the current period and therefore are not reported in the funds. | (9,847,575) |
| Net position (deficit) of the governmental activities | $ (2,875,476) |

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

**KNOWLEDGE QUEST ACADEMY**
**Statement of Revenues, Expenditures and Changes in Fund Balance**
**Governmental Funds**
**For the Year Ended June 30, 2020**

| | General Fund | KQA Building Corporation | Other Governmental Fund | Total Governmental Funds |
|---|---|---|---|---|
| Revenues | | | | |
| Local sources | $ 3,333,410 | $ 34,781 | $ 40,686 | $ 3,408,877 |
| State sources | 205,387 | | | 205,387 |
| Federal sources | 2,758 | | | 2,758 |
| Total revenues | 3,541,555 | 34,781 | 40,686 | 3,617,022 |
| Expenditures | | | | |
| Instruction | 2,218,851 | | 33,844 | 2,252,695 |
| Supporting services | 701,450 | | | 701,450 |
| Capital outlay | 26,075 | | | 26,075 |
| Debt service | | | | |
| Principal | | 185,000 | | 185,000 |
| Interest and fiscal charges | 1,280 | 157,206 | | 158,486 |
| Total expenditures | 2,947,656 | 342,206 | 33,844 | 3,323,706 |
| Excess of revenues over (under) expenditures | 593,899 | (307,425) | 6,842 | 293,316 |
| Other financing sources (uses) | | | | |
| Transfers in | | 290,619 | | 290,619 |
| Transfers out | (290,619) | | | (290,619) |
| Total other financing sources (uses) | (290,619) | 290,619 | - | - |
| Net change in fund balance | 303,280 | (16,806) | 6,842 | 293,316 |
| Fund balance at beginning of year | 2,008,356 | 632,910 | 14,629 | 2,655,895 |
| Fund balance at end of year | $ 2,311,636 | $ 616,104 | $ 21,471 | $ 2,949,211 |

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

**KNOWLEDGE QUEST ACADEMY**
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds 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 balances - governmental funds | $ 293,316 |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual amortization expense in the depreciation expense in the statement of activities. This is the amount by which depreciation exceeded capital outlays in the current period. | (86,482) |
| Repayment of principal on long-term debt are expenditures in the governmental funds, but the repayment reduces the long-term debt liability in the statement of net position. | 185,000 |
| In the statement of activities, certain expenses related to the pension and OPEB liabilities and bonds payable, and the related deferred inflows and outflows and accrued interest payable, are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). | 431,048 |
| Change in net position of governmental activities | $ 822,882 |

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

## Note A – Summary of significant accounting policies

This summary of the Knowledge Quest Academy's (the Academy) significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the Academy's accounting policies are described below.

### A.1 – Reporting entity

The Knowledge Quest Academy was organized in 2001 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Weld County School District RE-5J (the District) of the State of Colorado. The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Blended component units, although legally separate entities, are, in substance, part of the Academy's operations. Discretely presented component units, if any, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Academy.

The Academy has examined other entities that could be included as defined in number 2 and 3 above. Based on these criteria, the KQA Building Corporation is included in the Academy's basic financial statements. The KQA Building Corporation was formed to support and assist the Academy in performing its function or carrying out its purpose, specifically to assist in the financing and construction of the Academy's facilities. The KQA Building Corporation is blended into the Academy's financial statements as a special revenue fund.

The Academy is a component unit of the Weld County School District RE-5J as it is fiscally dependent on the District for the majority of funding.

### A.2 – Fund accounting

The Academy uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

**Note A – Summary of significant accounting policies (Continued)**

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The Academy does not have any proprietary or fiduciary funds.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked funds (special revenue funds). The following are the Academy's major governmental funds:

General Fund – The General Fund is the operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil operating funds passed through from the Weld County School District RE- 5J and grants and contributions. Expenditures include all costs associated with the daily operation of the school, except for certain capital outlay expenditures.

KQA Building Corporation – This fund is a special revenue fund used to account for specific revenue sources and the related expenditures of the KQA Building Corporation that are restricted to capital expenditures and debt service.

The following is the Academy's nonmajor governmental fund:

Pupil Activity Fund – This fund is a special revenue fund used to record transactions related to school-sponsored pupil organizations and activities.

**Note A.3 – Basis of presentation**

Government-wide financial statements – The statement of net position and the statement of activities display information about the Academy as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the Academy that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Note A – Summary of significant accounting policies (Continued)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Academy's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Academy, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Academy.

Fund financial statements – Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources management focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balance, which reports the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**A.4 – Basis of accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues – exchange and nonexchange transactions – Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Academy, available means expected to be received within sixty days of fiscal year-end.

**Note A – Summary of significant accounting policies (Continued)**

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. State equalization funds are recognized as revenues during the period in which they are appropriated. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Unearned revenue – Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the Academy has a legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Expenditures – The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**A.5 – Encumbrances**

Encumbrance accounting is utilized by the Academy to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end are canceled and reappropriated in the ensuing year's budget.

## Note A – Summary of significant accounting policies (Continued)

### A.6 – Short-term interfund receivables/payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as internal balances on the government-wide statement of net position, and are classified as due from other funds or due to other funds on the balance sheet.

### A.7 – Capital assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets with a unit cost greater than $5,000 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Infrastructure assets, consisting of certain improvements other than buildings (such as parking facilities, sidewalks, landscaping and lighting systems) are capitalized along with other capital assets. Improvements to assets are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not.

All reported capital assets will be depreciated with the exception of land costs. Improvements will be depreciated over the remaining useful lives of the related capital assets.

| Description | Governmental Activities |
|---|---|
| Buildings and improvements | 50 years |
| Equipment | 7-10 years |

### A.8 – Compensated absences

Each employee shall have six (6) paid time off ("PTO") days. PTO days are granted August 1st of each school year and expire July 31st of the following school year. PTO days do not roll over. Employees may elect to have a maximum of three (3) PTO days paid out at $100 per day. The election must be communicated by May 15th of the school year. PTO days may be used at the employee's discretion for events such as: sickness (self or family), funeral, doctor appointments, or professional development (note: this list is not all inclusive). PTO days will be taken in either half or full day increments, unless the employee receives written communication from the school principal.

**Note A – Summary of significant accounting policies (Continued)**

No liability is reported in the financial statements due to the immateriality of the amount involved.

**A.9 – Accrued liabilities and long-term obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Bonds payable and other long-term obligations are not recognized in the fund financial statements until due. Amounts deferred upon refunding of bonds are amortized over the life of the bonds using the straight-line method.

**A.10 – Fund balance**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement defines the different type of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

*Nonspendable*, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

*Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the board of directors (the Academy's highest level of decision-making authority).

*Assigned* fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

*Unassigned* fund balance is the residual classification for the Academy's general fund and includes all spendable amounts not contained in the other classifications.

**Note A – Summary of significant accounting policies (Continued)**

Committed fund balance is established by a formal passage of a resolution. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the board of directors through adoption or amendment of the budget as intended for specific purposes (such as purchase of fixed assets, construction, debt service or for other purposes).

When both restricted and unrestricted resources are available in governmental funds, the Academy applies expenditures against restricted fund balance first, and followed by committed fund balance, assigned fund balance and then unassigned fund balance.

### A.11 – Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### A.12 – Interfund transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. In general, the effect of interfund activity has been eliminated from the government-wide financial statements.

### A.13 – Extraordinary and special items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the board of education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year.

## Note B – Cash and investments

### Cash and deposits

Colorado State statutes govern the Academy's deposit of cash. The Public Deposit Protection Act (PDPA) for banks and savings and loans requires state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The fair value of the assets in the pool must be at least equal to 102% of the aggregate uninsured deposits.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end, the Academy had total deposits of $3,283,512, of which $522,248 was insured and $2,761,264 was collateralized with securities held by the pledging institution's trust department or agent in the Academy's name.

### Investments

Authorized investments – Investment policies are governed by Colorado State Statutes and the Academy's own investment policies and procedures. Investments of the Academy may include:

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

The Academy did not make any investments of funds at any time during the year.

## Note C – Interfund transactions

The following is a summary of interfund transfers for the year as presented in the fund financial statements:

| | Transfers In | Transfers Out |
|---|---|---|
| Governmental funds | | |
| General Fund | $ - | $ 290,619 |
| KQA Building Corporation | 290,619 | - |
| Total | $ 290,619 | $ 290,619 |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. The Academy transferred funds from the General Fund to the KQA Building Corporation to fund the debt service payments.

## Note D – Capital assets

Capital asset activity for the year was as follows:

| | Beginning Balance | Additions | Deletions/ Transfers | Ending Balance |
|---|---|---|---|---|
| **Governmental activities** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 260,000 | $ - | $ - | $ 260,000 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 5,187,746 | 26,075 | - | 5,213,821 |
| Equipment | 132,800 | - | - | 132,800 |
| Total capital assets, being depreciated | 5,320,546 | 26,075 | - | 5,346,621 |
| Total capital assets | 5,580,546 | 26,075 | - | 5,606,621 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,272,361) | (104,016) | - | (1,376,377) |
| Equipment | (122,113) | (8,541) | - | (130,654) |
| Total accumulated depreciation | (1,394,474) | (112,557) | - | (1,507,031) |
| Capital assets, net | $ 4,186,072 | $ (86,482) | $ - | $ 4,099,590 |

## Note E – Accrued salaries and benefits

Salaries and 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 not paid at year-end are estimated to be $124,701. Accordingly, this accrued compensation is reflected as a liability in the accompanying financial statements.

## Note F – Long-term debt

The following is a summary of the changes in long-term debt for the year:

| | Beginning Balances | Additions/ Adjustments | Reductions/ Adjustments | Ending Balances | Due within one year |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Bonds payable | $ 4,360,000 | $ - | $ (185,000) | $ 4,175,000 | $ 190,000 |
| Net pension liability | 4,288,577 | - | (730,950) | 3,557,627 | - |
| Net OPEB liability | 214,188 | - | (39,273) | 174,915 | - |
| Total | $ 8,862,765 | $ - | $ (955,223) | $ 7,907,542 | $ 190,000 |

The bonds payable will be liquidated by the KQA Building Corporation, while the net pension and OPEB liabilities attributable to the governmental activities will be liquidated primarily by the General Fund.

Charter School Revenue Bonds

In August 2005, the Colorado Educational and Cultural Facilities Authority (CECFA) issued $5,840,000 in Charter School Revenue Bonds, Series 2005, bearing interest at a rate of 6.50% with a final payment due May 1, 2036. The proceeds from the bonds were loaned to the KQA Building Corporation under a lease agreement to construct the Academy's school facility. The Academy is obligated under a lease agreement to make monthly lease payments to the KQA Building Corporation for use of the building. The KQA Building Corporation is required to make semi-annual payments to the Trustee for payment of the bonds. In June 2016, the CECFA issued $4,715,000 in Charter School Refunding Revenue Bonds, Series 2016, due in annual installments beginning in fiscal year 2020 ranging from $175,000 to $310,000, bearing interest at a rate of 2.990%, payable semi-annually on January 1st and July 1st.

**Note F – Long-term debt (Continued)**

The following schedule represents the KQA Building Corporation's debt service requirements to maturity for all outstanding bonded indebtedness:

| Year ended June 30, | Principal | Interest |
|---|---|---|
| 2021 | $ 190,000 | $ 124,009 |
| 2022 | 195,000 | 117,826 |
| 2023 | 205,000 | 111,762 |
| 2024 | 210,000 | 105,471 |
| 2025 | 215,000 | 99,309 |
| 2026-2030 | 1,180,000 | 391,884 |
| 2031-2035 | 1,370,000 | 198,515 |
| 2036-2037 | 610,000 | 18,594 |
| Totals | $ 4,175,000 | $ 1,167,370 |

**Prior-year defeasance of debt**

In prior years, the Academy defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Academy's financial statements. At year-end, $4,540,000 of bonds outstanding are considered defeased.

**Note G – Defined benefit pension plan**

Summary of significant accounting policies

*Pensions.* The Academy participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of June 30, 2020.

## Note G – Defined benefit pension plan (Continued)

General information about the pension plan

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

*Benefits provided as of December 31, 2019.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. Section 24-51-602, 604, 1713, and 1714.

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

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

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

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

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

**Note G – Defined benefit pension plan (Continued)**

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

*Contributions provisions as of June 30, 2020.* Eligible employees of the Academy 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. Section 24-51-401, *et seq.* and Section 24-51-413. Eligible employees are required to contribute 8.75 percent of their PERA-includable salary during the period of July 1, 2019 through June 30, 2020. Employer contribution requirements are summarized in the table below:

**Note G – Defined benefit pension plan (Continued)**

| | July 1, 2019 Through June 30, 2020 |
|---|---|
| Employer contribution rate | 10.40% |
| Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) | (1.02)% |
| Amount apportioned to the SCHDTF | 9.38% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 | 4.50% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411 | 5.50% |
| Total employer contribution rate to the SCHDTF | 19.38% |

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

As specified in C.R.S. Section 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.

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 Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were $289,204 for the year.

<u>Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions</u>

The net pension liability for the SCHDTF was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll-

**Note G – Defined benefit pension plan (Continued)**

forward the total pension liability to December 31, 2019. The Academy's proportion of the net pension liability was based on the Academy'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.

At year-end, the Academy reported a liability of $3,557,627 for its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the Academy 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 Academy were as follows:

| | | |
|---|---|---|
| Academy's proportionate share of the net pension liability | $ | 3,557,627 |
| The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the Academy | | 451,240 |
| Total | $ | 4,008,867 |

At December 31, 2019, the Academy's proportion was 0.0238 percent, which was a decrease of 0.0004 percent from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, the Academy recognized pension income of $134,291 and revenue of $19,904 for support from the State as a nonemployer contributing entity. At year-end, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 196,817 | $ - |
| Changes of assumptions or other inputs | 114,913 | 1,641,251 |
| Net difference between projected and actual earnings on pension plan investments | - | 444,715 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 44,901 | 369,330 |
| Contributions subsequent to the measurement date | 148,412 | - |
| Total | $ 505,043 | $ 2,455,296 |

**Note G – Defined benefit pension plan (Continued)**

$148,412 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | Amount |
|---|---|
| 2021 | $ (1,122,275) |
| 2022 | (829,480) |
| 2023 | (3,550) |
| 2024 | (143,360) |
| Totals | $ (2,098,665) |

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

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.40 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50 – 9.70 percent |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)[1] | 1.25 percent compounded annually |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)[1] | Financed by the Annual Increase Reserve |

[1] For 2019, the annual increase was 0.00 percent.

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

**Note G – Defined benefit pension plan (Continued)**

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

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

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

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.

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

**Note G – Defined benefit pension plan (Continued)**

| 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 percent.

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.

- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200 and the additional 0.50 percent 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 G – Defined benefit pension plan (Continued)**

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and the additional 0.50 percent, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health 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, which commenced 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 percent to 1.25 percent 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. There was no change in the discount rate from the prior measurement date.

**Note G – Defined benefit pension plan (Continued)**

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

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $ 4,718,175 | $ 3,557,627 | $ 2,583,246 |

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

Payables to the pension plan

The Academy did not report any payables to the pension plan at year-end.

**Note H – Defined contribution pension plan**

Voluntary Investment Program

*Plan description.* Employees of the Academy that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available CAFR which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

*Funding policy.* The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The Academy does not offer matching contributions to its employees. Employees are immediately vested in their own contributions and investment earnings. For the year ended, program members contributed $22,664 for the Voluntary Investment Program.

## Note I – Defined benefit other post employment benefit (OPEB) plan

### Summary of significant accounting policies

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

### General information about the OPEB plan

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

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

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

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

*PERA Benefit Structure*

The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 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. Section 24-51-1206(4) provides an additional subsidy. According to the statue, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

*DPS Benefit Structure*

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

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

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Academy were $15,221 for the year ended.

<u>OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB</u>

At year-end, the Academy reported a liability of $174,915 for its proportionate share of the net OPEB liability. The net pension OPEB liability for the HCTF was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2019. The Academy's proportion of the net OPEB liability was based on the Academy's contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

At December 31, 2019, the Academy's proportion was 0.0156 percent, which was a decrease of 0.0001 percent from its proportion measured as of December 31, 2018.

For the year ended June 30, 2020, the Academy recognized OPEB expense of $8,320. At year-end, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 571 | $ 29,396 |
| Changes of assumptions or other inputs | 1,465 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 2,859 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 3,818 | 10,757 |
| Contributions subsequent to the measurement date | 8,333 | - |
| Total | $ 14,187 | $ 43,012 |

$8,333 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30, | Amount |
|---|---|
| 2021 | $ (8,442) |
| 2022 | (8,442) |
| 2023 | (7,609) |
| 2024 | (6,205) |
| 2025 | (6,092) |
| 2026 | (368) |
| Total | $ (37,158) |

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.40 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50 percent in aggregate |
| Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Health care cost trend rates | |
| PERA benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | 5.60 percent in 2019, gradually decreasing to 4.50 percent in 2029 |
| Medicare Part A premiums | 3.50 percent in 2019, gradually increasing to 4.50 percent in 2029 |
| DPS benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | N/A |
| Medicare Part A premiums | N/A |

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

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

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

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

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

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

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

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

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

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.

## Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)

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

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

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

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

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

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

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

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

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

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

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.

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

| 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 percent.

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

| | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|---|---|---|---|
| Initial PERACare Medicare trend rate | 4.60% | 5.60% | 6.60% |
| Ultimate PERACare Medicare trend rate | 3.50% | 4.50% | 5.50% |
| Initial Medicare Part A trend rate | 2.50% | 3.50% | 4.50% |
| Ultimate Medicare Part A trend rate | 3.50% | 4.50% | 5.50% |
| Net OPEB Liability | $ 170,760 | $ 174,915 | $ 179,717 |

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

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

- 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 percent.

- 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 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

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

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate share of the net OPEB liability | $ 197,777 | $ 174,915 | $ 155,364 |

**Note I – Defined benefit other post employment benefit (OPEB) plan (Continued)**

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

Payables to the OPEB plan

The Academy did not report any payables to the OPEB plan at year-end.

**Note J – Risk management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy participates in the Colorado School District's Self-Insurance Pool (the Pool). The Pool's objectives are to provide member school districts defined property and liability coverages through self-insurance and excess insurance purchased from commercial companies. The Academy pays an annual contribution to the Pool for its insurance coverages. The Academy's contribution for the year was $49,936. The Academy continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage or the deductible in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

**Note K – Commitments and contingencies**

Federal and state funding

The Academy receives revenues from various federal and state grant programs which are subject to final review and approval by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Academy expects such amounts, if any, to be immaterial.

TABOR Amendment

In November 1992, Colorado voters passed an amendment, commonly known as the Taxpayer's Bill of Rights (TABOR), to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on "fiscal year spending" include allowable annual increases tied to inflation and local growth in student enrollment. Fiscal year spending as defined by the amendment excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt.

**Note K – Commitments and contingencies (Continued)**

TABOR Amendment

Revenue earned in excess of the spending limit must be refunded or approved to be retained by the Academy under specified voting requirements by the entire electorate. On November 4, 1997, the voters of the Weld County School Academy RE-5J approved a ballot initiative permitting the Weld County School Academy RE-5J to retain, appropriate, and utilize, by retention for reserve, carryover fund balance, or expenditure, the full proceeds and revenues received from every source whatsoever, without limitation, in this fiscal year and all subsequent fiscal years notwithstanding any limitation of Article X, Section 20 of the Colorado Constitution. The Academy believes that the Weld County School Academy RE-5J's ballot issue extends to release the Academy from the spending limits imposed by TABOR. TABOR is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of TABOR. However, the Academy has made certain interpretations of TABOR's language in order to determine its compliance. The Academy has reserved funds in the General Fund in the amount of $108,000 for the emergency reserve.

**Note L – Prior period restatement**

The Academy previously reported the activity of the Pupil Activity Fund in a fiduciary fund. Beginning in fiscal year 2020, such activity has been more appropriately reported in a special revenue fund. Accordingly, the governmental activities reports a restated beginning net position (deficit) of $(3,698,358).

| | |
|---|---|
| Beginning governmental activities net position (deficit) as originally reported | $ (3,712,987) |
| Pupil activity fund reclassification | 14,629 |
| Beginning net position (deficit), as restated | $ (3,698,358) |

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## Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of the Academy's Proportionate Share of the Net Pension Liability – PERA's School Division Trust Fund
- Schedule of Academy Contributions – PERA's School Division Trust Fund
- Schedule of the Academy's Proportionate Share of the Net OPEB Liability – PERA's Health Care Trust Fund
- Schedule of Academy Contributions – PERA's Health Care Trust Fund

**KNOWLEDGE QUEST ACADEMY**
**General Fund**
**Budgetary Comparison Schedule**
**For the Year Ended June 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| Revenues | | | | |
| Local sources | $ 3,277,585 | $ 3,322,791 | $ 3,333,410 | $ 10,619 |
| State sources | 90,000 | 131,943 | 205,387 | 73,444 |
| Federal sources | | | 2,758 | 2,758 |
| Total revenues | 3,367,585 | 3,454,734 | 3,541,555 | 86,821 |
| Expenditures | | | | |
| Instruction | 2,173,716 | 2,243,802 | 2,218,851 | 24,951 |
| Supporting services | 1,040,907 | 1,070,857 | 701,450 | 369,407 |
| Capital outlay | 35,000 | 35,000 | 26,075 | 8,925 |
| Debt service | | | | |
| Fiscal charges | 1,200 | 1,200 | 1,280 | (80) |
| Appropriated reserves | 116,762 | 103,875 | | 103,875 |
| Total expenditures | 3,367,585 | 3,454,734 | 2,947,656 | 507,078 |
| Excess of revenues over (under) expenditures | - | - | 593,899 | 593,899 |
| Other financing uses | | | | |
| Transfers out | | | (290,619) | (290,619) |
| Net change in fund balance | $ - | $ - | 303,280 | $ 303,280 |
| Fund balance at beginning of year | | | 2,008,356 | |
| Fund balance at end of year | | | $ 2,311,636 | |

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**KNOWLEDGE QUEST ACADEMY**
**Schedule of the Academy's Proportionate Share of the Net Pension Liability [1]**
**PERA's School Division Trust Fund**
**June 30, 2020**

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Academy's proportion of the net pension liability | 0.0238% | 0.0242% | 0.0269% | 0.0257% |
| Academy's proportionate share of the net pension liability | $ 3,557,627 | $ 4,288,577 | $ 8,712,338 | $ 7,648,465 |
| State's proportionate share of the net pension liability | 451,240 | 586,403 | - | - |
| Total | $ 4,008,867 | $ 4,874,980 | $ 8,712,338 | $ 7,648,465 |
| Academy's covered payroll | $ 1,399,099 | $ 1,283,700 | $ 1,242,839 | $ 1,152,946 |
| Academy's proportionate share of the net pension liability as a percentage of its covered-payroll | 254.28% | 334.08% | 701.00% | 663.38% |
| Plan fiduciary net position as a percentage of the total pension liability | 64.52% | 57.01% | 43.96% | 43.10% |

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

1 Information is not available prior to June 30, 2014. In future reports, additional years will be added until 10 years of historical data are presented.

| June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|
| 0.0252% | 0.0227% | 0.0202% |
| $ 3,846,823 | $ 3,077,326 | $ 2,572,592 |
| - | - | - |
| $ 3,846,823 | $ 3,077,326 | $ 2,572,592 |
| $ 1,096,118 | $ 951,188 | $ 813,090 |
| 350.95% | 323.52% | 316.40% |
| 59.20% | 62.84% | 64.06% |

**KNOWLEDGE QUEST ACADEMY**
**Schedule of Academy Contributions [1]**
**PERA's School Division Trust Fund**
**June 30, 2020**

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Contractually required contribution | $ 289,204 | $ 255,897 | $ 246,369 | $ 218,604 |
| Contributions in relation to the contractually required contribution | (289,204) | (255,897) | (246,369) | (218,604) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 1,492,282 | $ 1,337,672 | $ 1,304,476 | $ 1,189,010 |
| Contributions as a percentage of covered payroll | 19.38% | 19.13% | 18.89% | 18.39% |

[1] Information is not available prior to June 30, 2014. In future reports, additional years will be added until 10 years of historical data are presented.

| | | |
|---|---|---|
| June 30, 2016 | June 30, 2015 | June 30, 2014 |
| $ 200,489 | $ 176,624 | $ 139,361 |
| (200,489) | (176,624) | (139,361) |
| $ - | $ - | $ - |
| $ 1,130,520 | $ 1,045,603 | $ 871,727 |
| 17.73% | 16.89% | 15.99% |

**KNOWLEDGE QUEST ACADEMY**
**Schedule of the Academy's Proportionate Share of the Net OPEB Liability 1**
**PERA's Health Care Trust Fund**
**June 30, 2020**

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Academy's proportion of the net OPEB liability | 0.0156% | 0.0157% | 0.0153% | 0.0146% |
| Academy's proportionate share of the net OPEB liability | $ 174,915 | $ 214,188 | $ 198,953 | $ 189,315 |
| Academy's covered payroll | $ 1,399,099 | $ 1,283,700 | $ 1,242,839 | $ 1,152,946 |
| Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll | 12.50% | 16.69% | 16.01% | 16.42% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 24.49% | 17.03% | 17.53% | 16.72% |

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

1 Information is not available prior to June 30, 2017. In future reports, additional years will be added until 10 years of historical data are presented.

**KNOWLEDGE QUEST ACADEMY**
**Schedule of Academy Contributions [1]**
**PERA's Health Care Trust Fund**
**June 30, 2020**

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Contractually required contribution | $ 15,221 | $ 13,644 | $ 13,306 | $ 12,128 |
| Contributions in relation to the contractually required contribution | (15,221) | (13,644) | (13,306) | (12,128) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 1,492,282 | $ 1,337,672 | $ 1,304,476 | $ 1,189,010 |
| Contributions as a percentage of covered payroll | 1.02% | 1.02% | 1.02% | 1.02% |

1 Information is not available prior to June 30, 2017. In future reports, additional years will be added until 10 years of historical data are presented.

## Note A – Budgetary data

The Academy adheres to the following procedures in compliance with Colorado Revised Statutes, establishing the budgetary data in the financial statements:

1. Budgets are required by state law for all funds. Prior to May 31, the principal 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.
2. Public hearings are conducted by the board of directors to obtain taxpayer comments.
3. Prior to June 30, the budget is adopted by formal resolution.
4. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between departments within any fund and reallocation of budget line items within any department in the General Fund rests with the principal. Revisions that alter the total expenditures of any fund must be approved by the board of directors.
5. Budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the board of directors throughout the year. After budget approval, the Academy board of directors may approve supplemental appropriations if an occurrence, condition, or need exists which was not known at the time the budget was adopted.
7. Appropriations lapse at year-end.

## Note B – Factors affecting trends in amounts reported in the pension and OPEB schedules

Information about factors that significantly affect trends in the amounts reported in the Schedule of the Academy's Proportionate Share of the Net Pension and OPEB Liabilities and the Schedule of Academy Contributions is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

## Other Supplementary Information

Other supplementary information includes financial statements and schedules that are not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

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## Budgetary Comparison Schedules – General Fund

The General Fund accounts for all transactions of the Academy not required to be accounted for in other funds. This fund represents an accounting of the Academy's ordinary operations financed primarily from per pupil operating revenues passed through from the Weld County School District RE- 5J and grants and contributions. It is the most significant fund in relation to the Academy's overall operations. The schedules of revenues and expenditures are included to provide a greater level of detail to the reader of the financial statements.

**KNOWLEDGE QUEST ACADEMY**
**General Fund**
**Budgetary Comparison Schedule - Revenues**
**For the Year Ended June 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| Revenues | | | | |
| Local sources | | | | |
| Per pupil operating revenue | $ 3,211,200 | $ 3,237,000 | $ 3,240,888 | $ 3,888 |
| District pass-through override | | | 49,020 | 49,020 |
| Tuition | | | 400 | 400 |
| Pupil activities | 18,450 | 18,450 | 20,838 | 2,388 |
| Other local revenue | 47,935 | 67,341 | 22,264 | (45,077) |
| Total local sources | 3,277,585 | 3,322,791 | 3,333,410 | 10,619 |
| State sources | | | | |
| Capital construction | 90,000 | 90,000 | 112,098 | 22,098 |
| State on-behalf payment | | | 34,177 | 34,177 |
| District pass-through | | 41,943 | 59,112 | 17,169 |
| Total state sources | 90,000 | 131,943 | 205,387 | 73,444 |
| Federal sources | | | | |
| District pass-through | | | 2,758 | 2,758 |
| Total revenues | $ 3,367,585 | $ 3,454,734 | $ 3,541,555 | $ 84,063 |

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**KNOWLEDGE QUEST ACADEMY**
**General Fund**
**Budgetary Comparison Schedule - Expenditures**
**For the Year Ended June 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| Expenditures | | | | |
| Instruction | | | | |
| Salaries | $ 1,285,713 | $ 1,304,813 | $ 1,289,006 | $ 15,807 |
| Employee benefits | 570,809 | 575,031 | 586,489 | (11,458) |
| Purchased services | 67,919 | 68,919 | 72,906 | (3,987) |
| Supplies and materials | 249,275 | 295,039 | 270,450 | 24,589 |
| Total instruction | 2,173,716 | 2,243,802 | 2,218,851 | 24,951 |
| Supporting services | | | | |
| Students | | | | |
| Salaries | 55,500 | 55,500 | 35,375 | 20,125 |
| Employee benefits | 11,322 | 11,322 | 8,460 | 2,862 |
| Supplies and materials | 200 | 200 | 1,190 | (990) |
| Total students | 67,022 | 67,022 | 45,025 | 21,997 |
| Instructional staff | | | | |
| Salaries | 15,537 | 15,537 | 17,601 | (2,064) |
| Employee benefits | 3,170 | 3,170 | 4,189 | (1,019) |
| Supplies and materials | | | 2,865 | (2,865) |
| Total instructional staff | 18,707 | 18,707 | 24,655 | (5,948) |
| General administration | | | | |
| Purchased services | 7,500 | 7,500 | 2,000 | 5,500 |
| Supplies and materials | 600 | 600 | 152 | 448 |
| Total general administration | 8,100 | 8,100 | 2,152 | 5,948 |
| School administration | | | | |
| Salaries | 152,706 | 152,706 | 152,913 | (207) |
| Employee benefits | 61,092 | 61,092 | 63,330 | (2,238) |
| Purchased services | 1,800 | 1,800 | 192 | 1,608 |
| Supplies and materials | 1,000 | 1,000 | 1,330 | (330) |
| Other | 3,200 | 3,300 | 3,435 | (135) |
| Total school administration | 219,798 | 219,898 | 221,200 | (1,302) |

| | Budgeted Amounts | | | Variance with Final Budget Favorable (Unfavorable) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| Business services | | | | |
| Purchased services | 52,599 | 60,799 | 53,965 | 6,834 |
| Supplies and materials | 100 | 100 | | 100 |
| Total business services | 52,699 | 60,899 | 53,965 | 6,934 |
| Operations and maintenance | | | | |
| Salaries | 73,511 | 73,511 | 73,116 | 395 |
| Employee benefits | 24,976 | 24,976 | 27,470 | (2,494) |
| Purchased services | 476,675 | 490,675 | 151,551 | 339,124 |
| Supplies and materials | 48,000 | 53,000 | 48,825 | 4,175 |
| Total operations and maintenance | 623,162 | 642,162 | 300,962 | 341,200 |
| Central support services | | | | |
| Purchased services | 49,719 | 52,369 | 52,672 | (303) |
| Supplies and materials | 500 | 500 | | 500 |
| Total central support services | 50,219 | 52,869 | 52,672 | 197 |
| Food service operations | | | | |
| Purchased services | 1,200 | 1,200 | 819 | 381 |
| Total food service operations | 1,200 | 1,200 | 819 | 381 |
| Total supporting services | 1,040,907 | 1,070,857 | 701,450 | 369,407 |
| Capital outlay | | | | |
| Facilities acquisition | | | | |
| Property | 35,000 | 35,000 | 26,075 | 8,925 |
| Total capital outlay | 35,000 | 35,000 | 26,075 | 8,925 |
| Debt service | | | | |
| Fiscal charges | 1,200 | 1,200 | 1,280 | (80) |
| Total debt service | 1,200 | 1,200 | 1,280 | (80) |
| Appropriated reserves | 116,762 | 103,875 | | 103,875 |
| Total expenditures | $ 3,367,585 | $ 3,454,734 | $ 2,947,656 | $ 507,078 |

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**Budgetary Comparison Schedule - Nonmajor Governmental Fund**

The Academy reports the following nonmajor governmental fund:

Special Revenue Funds – These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

- Pupil Activity Fund – This fund is used to record transactions related to school-sponsored pupil organizations and activities.

**KNOWLEDGE QUEST ACADEMY**
**Pupil Activity Fund**
**Budgetary Comparison Schedule**
**For the Year Ended June 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget Favorable (Unfavorable) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Local sources | $ 50,000 | $ 50,000 | $ 40,686 | $ (9,314) |
| Expenditures | | | | |
| Instruction | | | | |
| Supplies and materials | 50,000 | 50,000 | 33,844 | 16,156 |
| Excess of revenues over (under) expenditures | $ - | $ - | 6,842 | $ 6,842 |
| Fund balance at beginning of year | | | 14,629 | |
| Fund balance at end of year | | | $ 21,471 | |