KOSON Schools

(dba STEM School Highlands Ranch)

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

Financial Statements

June 30, 2023

HINKLE & COMPANY PC

Strategic Business Advisors

KOSON Schools

(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
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June 30, 2023

HINKLE & COMPANY PC
Strategic Business Advisors

Independent Auditor's Report

Board of Directors
KOSON Schools
(dba STEM School Highlands Ranch)
Highlands Ranch, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of KOSON Schools *(dba STEM School Highlands Ranch)* (the School), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The School's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents, such as management's discussion and analysis and budgetary comparison information as noted in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

Hinkle & Company, PC

Englewood, Colorado
October 19, 2023

KOSON Schools

dba STEM School Highlands Ranch

Management's Discussion and Analysis

June 30, 2023

As management of KOSON Schools dba STEM School Highlands Ranch (SSHR or the School), we offer readers of STEM School Highlands Ranch's a narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

FINANCIAL HIGHLIGHTS

The year ended June 30, 2023, is the thirteenth year of operations for SSHR.

The General Fund balance increased by $973,441 during the fiscal year ended June 30, 2023, with a total Fund Balance of $13,388,208. The Building Corporation Fund Balance as of June 30, 2023, is equal to $3,447,559 with a decrease of $5,500,870.

The operation of School is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for the School increased 6% from $8,549.56 for 2021-2022 to $9063.40 for 2022-2023 school year. The School decreased pupil count by 170 students, which amounted to a $1,540,778 decrease in Per Pupil Revenue for 2022-2023 school year, and a 10% decrease of student count.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

The statement of activities presents information showing how the School's net position changed during the year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods, (for example, salaries and benefits earned but unpaid as of year-end).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's authorizer (Douglas County School District). The governmental activities of SSHR include instruction and supporting services.

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

At the end of June 2021 SSHR implemented GASB Statement No. 90 and this change continues to be in place for the year ended June 30, 2023, and indefinitely. GASB Statement No. 90 - Majority Equity Interest changed the Building Corporation from a proprietary fund to a Special Revenue (governmental) fund. Therefore, SSHR continues to maintain two governmental funds - the General Fund and the Building Corporation.

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

Notes to Financial Statements

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

KOSON Schools

dba STEM School Highlands Ranch
Management's Discussion and Analysis
June 30, 2023

Other Information-GASB 68 - State Pension

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the year ended June 30, 2023, SSHR's total net position was a negative ($10,945,378) and increased by $612,566 in fiscal year 2023 (($10,945,378) - ($11,557,944)). The net pension liability in the amount of $19,649,753, (see Note 5) represents the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position. Standard update procedures were used to roll forward the total pension liability by the PERA board with an effective date of December 31, 2021. Of SSHR's total net position, a positive $29,446,705 is the Net Investment in Capital Assets. A negative ($44,924,339) is unrestricted and $575,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Government-Wide Financial Analysis

The two summary statements below (pages iv and v) report the fiscal year 2023, and the prior year, fiscal year 2022. The Building Corporation entity is combined and included with governmental activities and the summary statement below shows the combined condensed statement of net position.

Analysis of Fund Operations

Revenues: Total combined revenues 2022-2023 decreased 1.6% (FY 2023 $19,978,634 combined revenue - FY 2022 $20,304,631 combined overall decrease $325,997 over prior year) less expenses for an overall combined net loss of ($4,527,429). The majority of income was received in the form of per pupil revenue, allocated from the State of Colorado through the School's charter authorizer Douglas County School District. The School had 1,498 full time students and received $9063.40 for per pupil funding. As stated above this is a 6% increase in per pupil funding from the prior year. The School received $598,217 (14% increase from the prior year) in Capital Construction funding from the State of Colorado that supported the building lease expense.

Expenses: Total combined expenses for the period of July 1, 2022, through June 30, 2023, were $24,506,063 down approximately 1% ($24,506,063 FY23 - $24,657,945 FY22 combined difference from prior year ($151,882)). The overall decrease in expenses is attributed to an overall lower student count.

General Fund: For the period of July 1, 2022, through June 30, 2023, SSHR reported an ending General Fund Balance of $13,388,208 or a 7.8% increase from the prior year.

KOSON Schools

dba STEM School Highlands Ranch
Management's Discussion and Analysis
June 30, 2023

Analysis of Budget-General Fund

The original 2022-2023 SSHR school adopted budget was approved in the spring of 2022, then a final budget was submitted based actual October 2022 student enrollment and finalized by the Board of Directors in October 2022. The final budget projected revenue at $16,908,592 and expenses at $16,589,766. However, revenue exceeded the final budget by $929,278 (5.5%) and expenses were above the final budget by 1.6%. The overall net excess of revenue over expenditures based on the final budget was a year ending 206% increase as of June 30, 2023. The majority of this positive change is the transfer of capital assets from SSHR to the Building Corporation. The October 2021 bond was used to reimburse the school. As of yearend the majority of the capital construction on the CHSSA gymnasium has been complete totaling $11M. The renovation construction on the P-tech building had a total estimated cost of $703K.

Capital Assets and Long-Term Debt

SSHR has three outstanding bonds: Series 2014 for $14,670,000 with an outstanding principal balance of $13,005,000 and Series 2019 for $10,795,000 with an outstanding principal balance of $10,580,000 and a Series 2021 for $12,425,000 with the full $12,425,000 outstanding at fiscal year-end June 30, 2023. Additional information regarding capital assets and long-term debt for these Series bonds is provided in Notes 3 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Actual enrollment for the 2022-23 school year was 1,498 and budgeted projected enrollment for the 2022-23 school year was 1,668.

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

KOSON Schools

dba STEM School Highlands Ranch

Management's Discussion and Analysis

June 30, 2023

	Condensed Statement of Net Position			
	Governmental Activities			
		2022-2023		2021-2022
Current assets:				
Cash Assets	$	18,371,311	$	25,029,485
Other Assets	$	273,036	$	171,099
Net capital assets	$	29,446,705	$	24,822,924
Deferred Outflow of Resources				
Pension & OPEB, net of Accumulated Amortization	$	4,975,425	$	5,197,829
TOTAL ASSETS	$	53,066,477	$	55,221,337
Current liabilities	$	2,126,275	$	4,156,383
Long-term liabilities	$	57,467,536	$	53,882,726
Deferred Inflow of Resources				
Pension & OPEB, net of Accumulated Amortization	$	4,418,044	$	8,740,172
TOTAL LIABILITIES	$	64,011,855	$	66,779,281
Net position:				
Net investment in capital assets	$	29,446,705	$	(12,672,271)
Restricted for Debt Service	$	3,613,381	$	11,244,984
Restricted for TABOR	$	575,000	$	575,000
Restricted for other purposes	$	343,875	$	329,353
Unrestricted	$	(44,924,339)	$	(11,035,010)
TOTAL NET POSITION	$	(10,945,378)	$	(11,557,944)

KOSON Schools
dba STEM School Highlands Ranch
Management's Discussion and Analysis
June 30, 2023

	Condensed Statement of Activities			
	Governmental Activities			
	Actual 2022-2023		Actual 2021-2022	
Revenue:				
Per Pupil Revenue	$	13,576,974	$	14,401,906
Mill Levy/Override	$	1,917,288	$	2,000,416
Capital Contruction	$	598,217	$	524,301
Interest Income	$	693,220	$	53,445
Student Participation Fees	$	321,781	$	415,618
Rental/Lease	$	81,167	$	2,166,289
Grants and Contributions/Donations	$	968,685	$	281,005
Total Revenues	$	18,157,332	$	19,842,980
Expenses:				
Instructional	$	8,655,170	$	4,407,310
Support	$	7,258,671	$	4,705,912
Building Corporation			$	546,169
Debt Service Expense	$	1,630,925	$	1,504,205
Total Expenses	$	17,544,766	$	11,163,596
Transfers	$	-	$	-
Change in Net Position	$	612,566	$	8,679,384
Net Position, Beginning	$	(11,557,944)	$	(20,237,328)
Net Position, Ending	$	(10,945,378)	$	(11,557,944)

Requests for Information

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

Star Ake, CFO
KOSON Schools
dba STEM School Highland Ranch
8773 South Ridgeline Boulevard.
Highlands Ranch, CO 80129

Basic Financial Statements

KOSON Schools

(dba STEM School Highlands Ranch)

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

Statement of Net Position

June 30, 2023

	Governmental Activities
Assets	
Cash and Investments	$ 14,348,485
Restricted Cash and Investments	4,022,826
Accounts Receivable	73,751
Interfund Receivable	65,570
Prepaid Expenses	133,715
Capital Assets*, Not Being Depreciated*	2,370,970
Capital Assets*, Net of Accumulated Depreciation*	27,075,735
Total Assets	48,091,052
Deferred Outflows of Resources	
Pensions*, Net of Accumulated Amortization*	4,857,487
OPEB, *Net of Accumulated Amortization*	117,938
Total Deferred Outflows of Resources	4,975,425
Liabilities	
Accounts Payable	827,775
Interfund Payable	65,570
Accrued Liabilities	347,328
Accrued Salaries and Benefits	567,907
Accrued Interest Payable	317,695
Noncurrent Liabilities	
Due Within One Year	355,000
Due in More Than One Year	36,792,702
Net Pension Liability	19,649,753
Net OPEB Liability	670,081
Total Liabilities	59,593,811
Deferred Inflows of Resources	
Pensions*, Net of Accumulated Amortization*	4,125,216
OPEB, *Net of Accumulated Amortization*	292,828
Total Deferred Inflows of Resources	4,418,044
Net Position	
Net Investment in Capital Assets	29,446,705
Restricted for:	
Debt Service	3,613,381
Repair and Replacement	343,875
Emergencies	575,000
Unrestricted	(44,924,339)
Total Net Position	$ (10,945,378)

See Notes to the Financial Statements.

KOSON Schools

(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position
Primary Government					
Governmental Activities					
Instruction	$ 8,655,170	$ 321,781	$ 728,477	$ -	$ (7,604,912)
Supporting Services	7,258,671	-	226,938	-	(7,031,733)
Interest on Long-Term Debt	1,630,925	-	-	-	(1,630,925)
Debt Issuance Cost	-	-	-	-	-
Total Governmental Activities	$ 17,544,766	$ 321,781	$ 955,415	$ -	(16,267,570)
	General Revenues				
	Per Pupil Revenue				13,576,974
	District Mill Levy				1,917,288
	Capital Construction				598,217
	Grants and Contributions not Restricted to Specific Programs				13,270
	Investment Income				693,220
	Other				81,167
	Transfers				-
	Total General Revenues and Transfers				16,880,136
	Change in Net Position				612,566
	Net Position, *Beginning of Year*				(11,557,944)
	Net Position, *End of Year*				$ (10,945,378)

KOSON Schools

(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Balance Sheet
Governmental Fund
June 30, 2023

	General	Building	Total
Assets			
Cash and Investments	$ 14,348,485	$ -	$ 14,348,485
Restricted Cash and Investments	-	4,022,826	4,022,826
Accounts Receivable	73,751	-	73,751
Interfund Receivable	65,570	-	65,570
Prepaid Expenses	133,715	-	133,715
Total Assets	$ 14,621,521	$ 4,022,826	$ 18,644,347
Liabilities and Fund Balance			
Liabilities			
Accounts Payable	$ 318,078	$ 509,697	$ 827,775
Interfund Payable	-	65,570	65,570
Accrued Liabilities	347,328	-	347,328
Accrued Salaries and Benefits	567,907	-	567,907
Total Liabilities	1,233,313	575,267	1,808,580
Fund Balance			
Nonspendable Prepaid Expenditures	133,715	-	133,715
Restricted for:			
Emergencies	575,000	-	575,000
Multi Year Obligations	-	-	-
Debt Service	-	3,103,684	3,103,684
Repair and Replacement	-	343,875	343,875
Unrestricted, Unassigned	12,679,493	-	12,679,493
Total Fund Balance	13,388,208	3,447,559	16,835,767
Total Liabilities and Fund Balance	$ 14,621,521	$ 4,022,826	$ 18,644,347

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

Total Fund Balance of the Governmental Fund	$ 16,835,767
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	29,446,705
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds.	
Accrued Interest Payable	(317,695)
Long Term Debt	(37,147,702)
Net pension liability	(19,649,753)
Pension-related deferred outflows of resources	4,857,487
Pension-related deferred inflows of resources	(4,125,216)
Net OPEB liability	(670,081)
OPEB-related deferred outflows of resources	117,938
OPEB-related deferred inflows of resources	(292,828)
Total Net Position of Governmental Activities	$ (10,945,378)

See Notes to the Financial Statements.

KOSON Schools

(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2023

	General	Building	Total
Revenues			
Local Sources	$ 16,469,305	$ 2,140,764	$ 18,610,069
State Sources	1,368,565	-	1,368,565
Federal Sources	-	-	-
Total Revenues	17,837,870	2,140,764	19,978,634
Expenditures			
Instruction	8,693,228	-	8,693,228
Supporting Services	8,166,201	5,666,915	13,833,116
Debt Service			
Principal	-	315,001	315,001
Interest	-	1,664,718	1,664,718
Total Expenditures	16,859,429	7,646,634	24,506,063
Excess of Revenues Over (Under) Expenditures	978,441	(5,505,870)	(4,527,429)
Other Financing Sources (Uses)			
Proceeds From Long-tern Debt	-	-	-
Debt Issuance Costs	-	-	-
Transfers In	(5,000)	5,000	-
Total Other Financing Sources (Uses)	(5,000)	5,000	-
Net Change in Fund Balance	973,441	(5,500,870)	(4,527,429)
Fund Balance, *Beginning of Year*	12,414,767	8,948,429	21,363,196
Fund Balance, *End of Year*	$ 13,388,208	$ 3,447,559	$ 16,835,767

KOSON Schools

(dba STEM School Highlands Ranch)

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

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

For the Year Ended June 30, 2023

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

Net Change in Fund Balance of the Governmental Fund	$	(4,527,429)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		5,684,239
Depreciation expense		(1,060,458)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.		
Proceeds from issuance of Long-term Debt		-
Loan Payments		347,493
Loan Forgiveness		-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following.		
Net pension liability		(4,018,465)
Pension-related deferred outflows of resources		(216,122)
Pension-related deferred inflows of resources		4,323,930
Net OPEB liability		86,162
OPEB-related deferred outflows of resources		(6,282)
OPEB-related deferred inflows of resources		(1,802)
Accrued Interest Payable		1,301
Change in Net Position of Governmental Activities	$	612,567

See Notes to the Financial Statements.

Note 1: Summary of Significant Accounting Policies

The Science Technology Engineering and Math (STEM) School Highlands Ranch, dba the STEM School (the School) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the District). Effective September 6, 2022, the School officially changed its name to KOSON Schools *dba STEM School Highlands Ranch*.

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

Reporting Entity

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

The School reports the following major funds:

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

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

Assets, Liabilities and Net Position/Fund Balance

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

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

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

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

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

Land Improvements	10 years
Buildings	40 years
Building Improvements	10 - 15 years
Equipment	2 - 10 years

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

Risk Management

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

Subsequent Events

The School has evaluated subsequent events through October 19, 2023, the date the financial statements were available to be issued.

Note 2: Deposits and Investments

A summary of cash and investments at June 30, 2023, follows:

Petty Cash	$	200
Deposits		14,348,285
Investments		4,022,826
Total	$	18,371,311

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

Cash and Investments	$	14,348,485
Restricted Cash and Investments		4,022,826
Total	$	18,371,311

Note 2: Deposits and Investments (Continued)

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2023, the School had bank deposits of $2,714,136 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

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

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

Fair Value Measurements - At June 30, 2023, the School's investment in Colotrust and the Corporation's investment in a money market fund were reported at the net asset value per share.

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

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and

Note 2: Deposits and Investments (Continued)

Investments *(Continued)*

Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations. At June 30, 2023, the Corporation had $12,287,603, invested in a money market fund rated AAAm by Standard and Poor's.

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

Local Government Investment Pool - At June 30, 2023, the School had $12,287,603 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at $1. Colotrust is rated AAAm by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2023, the Corporation held investments of $4,022,826 restricted for future debt service and building repair and replacement.

KOSON Schools
(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Notes to Financial Statements
June 30, 2023

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2023, is summarized below. Depreciation and amortization are combined in the following table.

Governmental Activities	**Balance 06/30/22**	**Additions**	**Deletions**	**Balance 06/30/23**
Capital Assets, *Not Being Depreciated*				
Land	$ 2,370,970	$ -	$ -	$ 2,370,970
Total Capital Assets, *Not Being Depreciated*	2,370,970	-	-	2,370,970
Capital Assets, *Being Depreciated*				
Land Improvements	190,078	-	-	190,078
Buildings	14,630,234	-	-	14,630,234
Building Improvements	11,999,370	5,567,882	-	17,567,252
Equipment	933,894	116,357	-	1,050,251
Total Capital Assets, *Being Depreciated*	27,753,576	5,684,239	-	33,437,815
Less Accumulated Depreciation				
Land Improvements	(38,016)	(19,007)	-	(57,023)
Buildings	(1,934,737)	(392,198)	-	(2,326,935)
Building Improvements	(2,432,705)	(606,927)	-	(3,039,632)
Equipment	(896,164)	(42,326)	-	(938,490)
Total Accumulated Depreciation	(5,301,622)	(1,060,458)	-	(6,362,080)
Total Capital Assets, *Being Depreciated*, *Net*	22,451,954	4,623,781	-	27,075,735
Governmental Activities Capital Assets, *Net*	$ 24,822,924	$ 4,623,781	$ -	$ 29,446,705

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

Note 4: Long-Term Debt

	Balance 6/30/22	**Additions**	**Payments**	**Balance 6/30/23**	**Due Within One Year**
Governmental Activities					
2014 Building Loan	$ 13,245,000	$ -	$ (240,000)	$ 13,005,000	$ 250,000
2014 Loan Discount	(103,064)	-	3,817	(99,247)	-
2019 Building Loan	10,655,000	-	(75,000)	10,580,000	80,000
2019 Bond Premium	720,489	-	(22,226)	698,263	-
2021 Building Loan	12,425,000	-	-	12,425,000	25,000
2021 Bond Premium	552,770	-	(14,084)	538,686	-
	$ 37,495,195	$ -	$ (347,493)	$ 37,147,702	$ 355,000

Following is a summary of long-term debt transactions for the year ended June 30, 2023:

Note 4: Long-Term Debt (Continued)

On October 1, 2021, the Colorado Educational and Cultural Facilities Authority (CECFA) issued $12,425,000 Charter School Revenue Bonds, Series 2021. Bond proceeds are to be used to construct and improve the Facilities in two phases, adding a gymnasium, theater in the gymnasium, classrooms and a lobby/connector. Interest accrues on the bonds at rates ranging from 4% per annum and is payable semi-annually on April 1 and October 1. Principal payments are due annually on October 1, through 2061.

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

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

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

Future debt service requirements for the bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2024	$ 355,000	$ 1,652,668	$ 2,007,668
2025	365,000	1,638,268	2,003,268
2026	375,000	1,622,681	1,997,681
2027	400,000	1,606,081	2,006,081
2028	415,000	1,588,318	2,003,318
2028-2032	2,375,000	7,747,186	10,122,186
2033-2037	3,020,000	150,270	3,170,270
2038-2042	3,850,000	6,357,960	10,207,960
2043-2047	4,930,000	5,339,361	10,269,361
2048-2052	6,315,000	4,064,622	10,379,622
2053-2057	4,925,000	2,485,850	7,410,850
2058-2061	8,685,000	1,168,200	9,853,200
Total	$ 36,010,000	$ 35,421,465	$ 71,431,465

Note 5: Defined Benefit Pension Plan

General Information

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

Benefits provided as of December 31, 2022 - PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

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

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

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

Note 5: Defined Benefit Pension Plan (Continued)

General Information *(Continued)*

Upon meeting certain criteria, benefit recipients who elect to receive a lifetime retirement benefit generally receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Subject to the automatic adjustment provision (AAP) under C.R.S. § 24-51-413, eligible benefit recipients under the PERA benefit structure who began membership before January 1, 2007, and all eligible benefit recipients of the DPS benefit structure will receive the maximum annual increase (AI) or AI cap of 1.00% unless adjusted by the AAP. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of the 1.00% AI cap or the average increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed a determined increase that would exhaust 10% of PERA's Annual Increase Reserve (AIR) for the SCHDTF. The AAP may raise or lower the aforementioned AI cap by up to 0.25% based on the parameters specified in C.R.S. § 24-51-413.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of a disability. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum of 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) in place under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions provisions as of June 30, 2023 - Eligible employees of the School and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq*. and § 24-51-413. Eligible employees are required to contribute 11.00% of their PERA-includable salary during the period of July 01, 2022 through June 30, 2023. The School's contribution rate was 20.38% of covered salaries for July 01, 2022 through June 30, 2023. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were $1,741,697, for the year ended June 30, 2023.

Note 5: Defined Benefit Pension Plan (Continued)

General Information *(Continued)*

For purposes of GASB 68 paragraph 15, a circumstance exists in which a nonemployer contributing entity is legally responsible for making contributions to the SCHDTF and is considered to meet the definition of a special funding situation. As specified in C.R.S. § 24-51-414, the State is required to contribute $225 million (actual dollars) direct distribution each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. House Bill (HB) 22-1029, instructed the State treasurer to issue an additional direct distribution to ERA in the amount of $380 million (actual dollars), upon enactment. The July 1, 2023, payment is reduced by $190 million (actual dollars) to $35 million (actual dollars). The July 1, 2024, payment will not be reduced due to PERA's negative investment return in 2022. Senate Bill (SB) 23-056, enacted June 2, 2023, requires an additional direct distribution of approximately $14.5 million (actual dollars), for a total of approximately $49.5 million (actual dollars) to be contributed July 1, 2023.

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

The net pension liability for the SCHDTF was measured at December 31, 2022, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. Standard update procedures were used to roll forward the TPL to December 31, 2022. The School proportion of the net pension liability was based on the School contributions to the SCHDTF for the calendar year, 2022 relative to the total contributions of participating employers and State as a nonemployer contributing entity.

At June 30, 2023, the School reported a liability of $19,649,753, for its proportionate share of the net pension liability that reflected a decrease for support from the State as a nonemployer contributing entity. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the School were as follows:

School's proportionate share of net pension liability	$ 17,423,216
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School	2,226,537
Proportionate share of the net pension liability	$ 19,649,753

At December 31, 2022, the School's proportion was 0.1079095573%, which was a decrease of 0.0264102563% from its proportion measured at December 31, 2021.

Note 5: Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2023, the School recognized a pension expense of $1,447,953 and a benefit of $673,358 for support from the State as a nonemployer contributing entity. At June 30, 2023, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 185,967	$ -
Changes of assumptions and other inputs	348,062	-
Net difference between projected and actual earnings on plan investments	2,646,255	-
Changes in proportion	832,759	4,125,216
Contributions subsequent to the measurement date	844,444	-
Total	$ 4,857,487	$ 4,125,216

$844,444 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 fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2024	$ (1,488,698)
2025	(721,498)
2026	525,866
2027	1,572,157
Total	$ (112,173)

Note 5: Defined Benefit Pension Plan (Continued)

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

Actuarial Assumptions - The TPL in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs.

Actuarial cost method	Entry age
Price inflation	2.3%
Real wage growth	0.7%
Wage inflation	3.0%
Salary increases, including wage inflation	3.8% - 11.5%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post retirement benefit increases:	
Hired prior to 1/1/2007	1.00%
Hired after 12/31/2006	ad hoc

The mortality tables described below are generational mortality tables developed on a benefit-weighted basis.

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

Post-retirement non-disabled mortality assumptions were based upon the PubT-2010 Healthy Retiree Table, adjusted as follows:

- Males: 112% of the rates prior to age 80 and 94% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- Females: 83% of the rates prior to age 80 and 106% of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled beneficiary mortality assumptions were based upon the PubT-2010 Contingent Survivor Table, adjusted as follows:

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

Disabled mortality assumptions were based upon the PubNS-2010 Disabled Retiree Table using 99% of the rates for all ages with generational projection using scale MP-2019.

Note 5: Defined Benefit Pension Plan (Continued)

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

The actuarial assumptions used in the December 31, 2021, valuation were based on the results of the 2020 experience analysis for the periods January 1, 2016, through December 31, 2019, and were reviewed and adopted by the PERA Board at their November 20, 2020, meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared at least every five years for PERA. Recently this assumption has been reviewed more frequently. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

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

The PERA Board first adopted the 7.25 percent long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019, meeting, to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives	6.00%	4.70%
Total	100.00%	

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

Note 5: Defined Benefit Pension Plan (Continued)

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

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in Senate Bill (SB) 18-200 and required adjustments resulting from the 2018 and 2020 AAP assessments. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200, required adjustments resulting from the 2018 and 2020 AAP assessments. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State, as a nonemployer contributing entity, will provide an annual direct distribution of $225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- HB 22-1029, effective upon enactment in 2022, required the State treasurer to issue, in addition to the regularly scheduled $225 million (actual dollars) direct distribution, a warrant to PERA in the amount of $380 million (actual dollars). The July 1, 2023, direct distribution is reduced by $190 million (actual dollars) to $35 million (actual dollars). The July 1, 2024, direct distribution will not be reduced from $225 million (actual dollars) due to PERA's negative investment return in 2022.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

Note 5: Defined Benefit Pension Plan (Continued)

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

- The AIR balance was excluded from the initial FNP, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the FNP and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the SCHDTF's FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. The discount determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	$ 25,714,769	$ 19,649,753	$ 14,584,845

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

Note 6: Postemployment Healthcare Benefits

General Information

Plan description - Eligible employees of the School are provided with OPEB through the HCTF - a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended, and 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 by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) 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.

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

Enrollment in the PERACare health benefits program 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.

Note 6: Postemployment Healthcare Benefits (Continued)

General Information *(Continued)*

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

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

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

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

Note 6: Postemployment Healthcare Benefits (Continued)

General Information *(Continued)*

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School was $83,005, for the year ended June 30, 2023.

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

At June 30, 2023, the School reported a liability of $776,822 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured at December 31, 2022, and the total OPEB liability (TOL) used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2022. The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2022, relative to the contributions of all participating employers to the HCTF.

At December 31, 2022, the School's proportion was 0.0820695716%, which was a decrease of 0.0056306321% from its proportion measured at December 31, 2021.

For the year ended June 30, 2023, the School recognized OPEB expense of $15,077. At June 30, 2023, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 89	$ 162,053
Changes in assumptions and other inputs	10,770	73,954
Net difference between projected and actual earnings on plan investments	40,927	-
Changes in proportion	23,899	56,821
Contributions subsequent to the measurement date	42,253	-
Total	$ 117,938	$ 292,828

Note 6: Postemployment Healthcare Benefits (Continued)

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

$42,253 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 fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended June 30,		
2024	$	(62,993)
2025		(68,431)
2026		(32,131)
2027		(12,380)
2028		(25,391)
Thereafter		(5,817)
Total	$	(217,143)

Actuarial Assumptions - The TOL in the December 31, 2021 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.3%
Real wage growth	0.7%
Wage inflation	3.0%
Salary increases, including wage inflation	3.4% - 11.0%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates:	
PERA Benefit Structure	
Service-based premium subsidy	0.0%
PERACare Medicare plans	
4.5% in 2021, 6.0% in 2022, gradually decreasing to 4.5% in 2029	
Medicare Part A premiums:	
3.75% in 2021, gradually increasing to 4.5% in 2029	
DPS Benefit Structure	
Service-based premium subsidy	0.0%
PERACare Medicare plans	N/A
Medicare Part A premiums:	N/A

Note 6: Postemployment Healthcare Benefits (Continued)

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

The TOL for the HCTF, as of the December 31, 2022, measurement date, was adjusted to reflect the disaffiliation, allowable under C.R.S. § 24-51-313, of Tri-County Health Department (TriCounty Health), effective December 31, 2022. As of the close of the 2022 fiscal year, no disaffiliation payment associated with Tri-County Health was received, and therefore no disaffiliation dollars were reflected in the FNP as of the December 31, 2022, measurement date.

Beginning January 1, 2022, the per capita health care costs are developed by plan option; based on 2022 premium rates for the UnitedHealthcare Medicare Advantage Prescription Drug (MAPD) PPO plan #1, the UnitedHealthcare MAPD PPO plan #2, and the Kaiser Permanente MAPD HMO plan. Actuarial morbidity factors are then applied to estimate individual retiree and spouse costs by age, gender, and health care cost trend. This approach applies for all members and is adjusted accordingly for those not eligible for premium-free Medicare Part A for the PERA benefit structure.

The 2022 Medicare Part A premium is $499 (actual dollars) per month.

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2021, 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 6: Postemployment Healthcare Benefits (Continued)

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

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2022	6.50%	3.75%
2023	6.25%	4.00%
2024	6.00%	4.00%
2025	5.75%	4.00%
2026	5.50%	4.25%
2027	5.25%	4.25%
2028	5.00%	4.25%
2029	4.75%	4.50%
2030+	4.50%	4.50%

Mortality assumptions used in the December 31, 2021, valuation for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the TOL for the HCTF, but developed using a headcount-weighted basis. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

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

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

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

Note 6: Postemployment Healthcare Benefits (Continued)

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

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

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

Post-retirement non-disabled mortality assumptions for State Troopers were based upon the unadjusted PubS-2010 Healthy Retiree Table, with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for the School Division were based on the upon the PubT-2010 Healthy Retiree Table, adjusted as follows:

- Males: 112% of the rates prior to age 80 and 94% of the rates for ages 80 and older, with generational projection using scale MP-2019.
- Females: 83% of the rates prior to age 80 and 106% of the rates for ages 80 and older, with generational projection using scale MP-2019.

Post-retirement non-disabled mortality assumptions for the Judicial Division were based upon the unadjusted PubG-2010(A) Above-Median Healthy Retiree Table with generational projection using scale MP-2019.

Post-retirement non-disabled beneficiary mortality assumptions were based upon the Pub-2010 Contingent Survivor Table, adjusted as follows:

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

Disabled mortality assumptions for members other than State Troopers were based upon the PubNS-2010 Disabled Retiree Table using 99% of the rates for all ages with generational projection using scale MP-2019.

Disabled mortality assumptions for State Troopers were based upon the unadjusted PubS-2010 Disabled Retiree Table with generational projection using scale MP-2019.

Note 6: Postemployment Healthcare Benefits (Continued)

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

The following health care costs assumptions were updated and used in the roll-forward calculation for the HCTF:

- Per capita health care costs in effect as of the December 31, 2021, valuation date for those PERACare enrollees under the PERA benefit structure who are expected to be age 65 and older ages and are not eligible for premium-free Medicare Part A benefits have been updated to reflect costs for the 2022 plan year.
- The December 31, 2021, valuation utilizes premium information as of January 1, 2022, as the initial per capita health care cost. As of that date, PERACare health benefits administration is performed by UnitedHealthcare. In that transition, the costs for the Medicare Advantage Option #2 decreased to a level that is lower than the maximum possible service-related subsidy as described in the plan provisions.
- The health care cost trend rates applicable to health care premiums were revised to reflect the then-current expectation of future increases in those premiums. Medicare Part A premiums continued with the prior valuation trend pattern.

Actuarial assumptions pertaining to per capita health care costs and their related trend rates are analyzed and updated annually by PERA Board's actuary, as discussed above.

Effective for the December 31, 2022, measurement date, the timing of the retirement decrement was adjusted to middle-of-year within the valuation programming used to determine the TOL, reflecting a recommendation from the 2022 actuarial audit report, dated October 14, 2022, summarizing the results of the actuarial audit performed on the December 31, 2021, actuarial valuation.

The actuarial assumptions used in the December 31, 2021, valuation were based on the results of the 2020 experience analysis for the period January 1, 2016, through December 31, 2019, and were adopted by the PERA's Board during the November 20, 2020, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared at least every five years for PERA. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

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

Note 6: Postemployment Healthcare Benefits (Continued)

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

As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized, as presented previously (See Note 5).

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

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2022, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.00%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Estimated transfers of dollars into the HCTF representing a portion of purchase service agreements intended to cover the costs associated with OPEB benefits.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the HCTF's FNP was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

Note 6: Postemployment Healthcare Benefits (Continued)

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$ 776,822	$ 670,081	$ 578,783

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability using the current healthcare cost trend rates applicable to the PERA benefit structure, ranging from 3.00% to 7.25%, as well as if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability	$ 651,115	$ 670,081	$ 690,718

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

Note 7: Commitments and Contingencies

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2023, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Note 7: Commitments and Contingencies (Continued)

TABOR Amendment

In November 1992, Colorado voters approved the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2023, the reserve was reported as restricted fund balance in the General Fund, in the amount of $575,000.

Required Supplementary Information

KOSON Schools
(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Contributions
Public Employees' Retirement Association of Colorado
School Division Trust Fund
For the Year Ended June 30, 2023

Measurement Date	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18
Proportionate Share of the Net Pension Liability					
School's Proportion of the Net Pension Liability	0.1079095573%	0.1343198136%	0.1532250824%	0.1297788195%	0.1328656657%
Net Pension Liability					
School's Proportionate Share	$ 19,649,753	$ 15,631,288	$ 23,164,542	$ 19,388,674	$ 23,526,595
State's Proportionate Share	5,726,129	1,791,928	-	2,459,206	3,216,934
Net Proportionate Share	$ 25,375,882	$ 17,423,216	$ 23,164,542	$ 21,847,880	$ 26,743,529
School's Covered-Employee Payroll	$ 8,328,134	$ 8,394,521	$ 8,193,595	$ 7,626,357	$ 7,304,336
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	236%	186%	283%	254%	322%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62%	75%	67%	65%	57%

Reporting Date	6/30/23	6/30/22	6/30/21	6/30/20	6/30/19
School Contributions					
Statutorily Required Contribution	$ 1,741,697	$ 1,709,512	$ 1,645,812	$ 1,532,742	$ 1,397,320
Contributions in Relation to the Statutorily Required Contribution	(1,741,697)	(1,709,512)	(1,645,812)	(1,532,742)	(1,397,320)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 8,137,728	$ 8,565,028	$ 8,278,706	$ 7,908,884	$ 8,086,030
Contributions as a Percentage of Covered-Employee Payroll	21.40%	19.96%	19.88%	19.38%	17.28%

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

(Continued)

KOSON Schools
(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Contributions
Public Employees' Retirement Association of Colorado
School Division Trust Fund
For the Year Ended June 30, 2023
(Continued)

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

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

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

KOSON Schools

(dba STEM School Highlands Ranch)

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

Required Supplementary Information

Schedule of Proportionate Share of the Net OPEB Liability and Contributions

Public Employees' Retirement Association of Colorado

Health Care Trust Fund

For the Year Ended June 30, 2023

Measurement Date	12/31/22	12/31/21	12/31/20
Proportionate Share of the Net OPEB Liability			
School's Proportion of the Net OPEB Liability	0.0820695716%	0.0877002037%	0.0886037309%
School's Proportionate Share of the Net OPEB Liability	$ 776,822	$ 756,243	$ 841,935
School's Covered Payroll	$ 8,328,134	$ 8,394,521	$ 8,193,595
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	9%	9%	10%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	39%	39%	33%

Reporting Date	6/30/23	6/30/22	6/30/21
School Contributions			
Statutorily Required Contribution	$ 83,005	$ 87,363	$ 84,443
Contributions in Relation to the Statutorily Required Contribution	(83,005)	(87,363)	(84,443)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered Payroll	$ 8,137,728	$ 8,086,030	$ 8,278,706
Contributions as a Percentage of Covered Payroll	1.02%	1.08%	1.02%

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

(Continued)

KOSON Schools

(dba STEM School Highlands Ranch)

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

Required Supplementary Information

Schedule of Proportionate Share of the Net OPEB Liability and Contributions

Public Employees' Retirement Association of Colorado

Health Care Trust Fund

For the Year Ended June 30, 2023

(Continued)

Measurement Date	12/31/19	12/31/18	12/31/17
Proportionate Share of the Net OPEB Liability			
School's Proportion of the Net OPEB Liability	0.0848135508%	0.0863633965%	0.0821649891%
School's Proportionate Share of the Net OPEB Liability	$ 953,303	$ 1,175,010	$ 1,067,816
School's Covered Payroll	$ 7,626,357	$ 7,304,336	$ 6,670,537
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	13%	16%	16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	24%	0%	18%

Reporting Date	6/30/20	6/30/19	6/30/18
School Contributions			
Statutorily Required Contribution	$ 80,671	$ 74,504	$ 71,881
Contributions in Relation to the Statutorily Required Contribution	(80,671)	(74,504)	(71,881)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered Payroll	$ 7,908,884	$ 8,086,030	$ 8,685,021
Contributions as a Percentage of Covered Payroll	1.02%	0.92%	0.83%

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

KOSON Schools
(dba STEM School Highlands Ranch)
(A Component Unit of Douglas County School District RE.1)
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance *Positive (Negative)*
Revenues				
Local Sources				
Per Pupil Revenue	$ 14,902,800	$ 13,651,001	$ 13,576,974	$ (74,027)
District Mill Levy	1,994,850	1,825,905	1,917,288	91,383
Student Fees and Activities	319,005	291,427	321,781	30,354
Contributions and Donations	50,000	50,000	94,437	44,437
Investment Income	25,000	300,000	558,825	258,825
Other Income	36,300	50,000	-	(50,000)
Total Local Sources	17,327,955	16,168,333	16,469,305	300,972
State Sources				
Grants	486,750	159,636	770,348	610,712
Capital Construction	-	580,623	598,217	17,594
Total State Sources	486,750	740,259	1,368,565	628,306
Federal Sources				
Grants	-	-	-	-
Total Federal Sources	-	-	-	-
Total Revenues	17,814,705	16,908,592	17,837,870	929,278
Expenditures				
Salaries	9,089,871	8,744,998	8,685,021	59,977
Employee Benefits	2,793,092	2,722,500	2,911,026	(188,526)
Purchased Services	4,594,747	4,323,068	4,444,276	(121,208)
Supplies	600,450	465,000	563,360	(98,360)
Property	422,640	237,000	188,199	48,801
Other	248,000	97,200	67,547	29,653
Total Expenditures	17,748,800	16,589,766	16,859,429	(269,663)
Excess of Revenues Over (Under) Expenditures	65,905	318,826	978,441	659,615
Other Financing Sources (Uses)				
Transfers	(5,000)	(4,800)	(5,000)	(200)
Total Other Financing Sources (Uses)	(5,000)	(4,800)	(5,000)	(200)
Net Change in Fund Balance	60,905	314,026	973,441	659,415
Fund Balance, *Beginning of Year*	12,414,772	7,798,988	12,414,767	4,615,779
Fund Balance, *End of Year*	$ 12,475,677	$ 8,113,014	$ 13,388,208	$ 5,275,194

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

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

Changes in Assumptions and Other Inputs

For the year ended June 30, 2023, the total pension liability was determined by an actuarial valuation as of December 31, 2021. The following revised economic and demographic assumptions were effective as of December 31, 2021.

- Investment rate of return assumption of 7.25% per year, compounded annually. This assumption did not change from the prior year.
- Price inflation assumption of 2.3% per year. This assumption did not change from the prior year.
- Real rate of investment return assumption of 4.85% per year, net of investment expenses. The rate reflected in the roll-forward calculation of the collective total pension liability to the measurement date was 7.25%. This assumption did not change from prior year.
- Wage inflation assumption of 3.0% per year. This assumption did not change from the prior year.
- Healthy and disabled mortality assumptions are based on the PubT-2010 Employee Tables.

Note 2: Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

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

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

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