

**SOUTHWEST OPEN SCHOOL**

Independent Accountants' Reports  
and  
Basic Financial Statements

June 30, 2023

# **SOUTHWEST OPEN SCHOOL**

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June 30, 2023

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Southwest Open School  
Cortez, Colorado 81321

**Opinions**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1 as of June 30, 2023, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and the Governmental Designated Purpose Grants Fund for the year then ended in conformity 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Southwest Open School, component unit of Montezuma County (Cortez) School District, and to meet 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**

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

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 Southwest Open School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Southwest Open 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 Southwest Open 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.

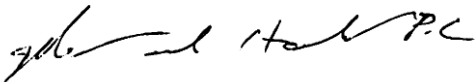
## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of School Pension Contributions, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of School OPEB Contributions, and Schedule of the School's Proportionate Share of the Net OPEB Liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1 basic financial statements. The accompanying Capital Projects Fund budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Capital Projects Fund budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read "Majors and Haley, P.C.", is written above the printed name.

Majors and Haley, P.C.  
December 4, 2023

## **SOUTHWEST OPEN SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Southwest Open School, Colorado ("School") financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2023. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

### **FINANCIAL HIGHLIGHTS**

- The School's net position increased by \$86,032.
- The School's total revenue was \$2,054,910, which is a decrease of \$213,603 from \$2,268,513 in the prior year.
  - General revenues (primarily the per pupil charter school allocation of \$1,037,735) accounted for \$1,123,695 in revenue, or 54.7% of all revenues. Program specific revenues in the form of charges for services and grants accounted for \$931,215, or the remaining 45.3%.
- The School incurred \$1,968,878 in expenses which is an increase of \$425,547 from \$1,543,331 in the prior year.
- - The general revenues of \$1,123,695 were adequate to cover all of the \$1,037,663 in expenditures that were not offset by program specific revenues.
- The General Fund reported a \$28,639 increase in fund balance from \$801,971 in the prior year to \$830,610. This is a 15.8% decrease.
  - General Fund revenues decreased \$222,456 from \$1,429,472 in the prior year to \$1,207,016 for a 15.6% decrease.
  - General Fund expenditures decreased \$401,323 from \$1,579,700 in the prior year to \$1,178,377 for a 25.4% decrease.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. Management's Discussion and Analysis is intended to serve as an introduction to the School's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components.

## **SOUTHWEST OPEN SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

- School-wide financial statements.
- Fund financial statements.
- Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

#### ***School-wide Financial Statements***

The School-wide financial statements are designed to provide the reader of the School's Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The school-wide financial statements include the Statement of Net Position and the Statement of Activities.

- The Statement of Net Position presents information about all of the School's assets, liabilities and deferred inflows, with the difference reported as net position.
- The Statement of Activities presents information showing how the net position of the School changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all of the revenues and expenses are taken into account regardless of when cash is received or paid.

The School-wide financial statements are one way to measure the School's financial health, or financial position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the School's overall health, you need to consider additional non-financial factors such as changes in the School's student counts, and the condition of school facilities.

In the School-wide financial statements, the School's activities are presented in the following categories:

- **Governmental activities** – All of the School's basic services are included here, such as instruction, students, operations and maintenance, and administration. These activities are financed mainly through general revenues (per pupil charter school allocation from Montezuma County (Cortez) School District RE-1 and Impact Aid).

## **SOUTHWEST OPEN SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

#### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by state law. However, the School establishes other funds to help it manage and control its finances to achieve certain results.

The School uses one type of fund:

- **Governmental funds** - All of the School's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.

#### **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the year ended June 30, 2023 the School's liabilities and deferred inflows were less than its assets and deferred outflows by \$354,380. Current year activities increased the net position by \$86,032. \$60,000 of the total net position is restricted for emergencies required to comply with the Tabor amendment.

The following table provides a summary of the Statement of Net Position for governmental activities as of June 30, 2023 and 2022.



# **SOUTHWEST OPEN SCHOOL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

**Table 1**

**Comparative Summary Statement of Net Position  
At June 30**

	Governmental Activities	
	2023	2022
Assets		
Current assets	\$ 1,379,474	\$ 1,596,781
Capital assets, net of depreciation	976,077	752,765
Total assets	2,355,551	2,349,546
Deferred Outflows of Resources	978,234	413,176
Liabilities		
Current liabilities	177,504	280,909
Noncurrent liabilities	2,253,479	1,381,378
Total liabilities	2,430,983	1,662,287
Deferred Inflows of Resources	548,422	832,087
Net Position		
Invested in capital asset	976,077	752,765
Restricted	431,360	573,901
Unrestricted	(1,053,057)	(1,058,318)
Total net position	\$ 354,380	\$ 268,348

At the close of the most recent fiscal year current assets comprised \$1,379,474 (59%) of the School's assets. The investments in capital assets, less depreciation was \$976,077. There was an increase in total assets from \$2,349,546 in the prior year to \$2,355,551. Accrued wages and benefits represent 80% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other School employees' work nine or ten months of the year, but are paid over a full twelve months. Current liabilities decreased from \$280,909 in the prior year to \$177,504. Deferred inflows of resources net of deferred outflows of resources increased \$848,223.

## **SOUTHWEST OPEN SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

The following table provides a summary of Changes Net Position for governmental activities in fiscal year 2023 and 2022.

**Table 2**  
Comparative Summary of Changes in Net Position  
For the Year Ending June 30

	Governmental Activities	
	2023	2022
Revenues		
Program revenues		
Charges for services		\$ 48,322
Operating grants and contributions	\$ 788,515	784,575
Capital grants and contributions	142,700	39,300
General revenues		
Per pupil charter school allocation	1,037,735	1,164,704
Impact Aid	46,283	34,240
Other	39,677	197,372
Total revenues	<u>2,054,910</u>	<u>2,268,513</u>
Expenses		
Instruction	1,147,920	407,079
Students	195,773	729,142
Instructional staff	12,612	13,174
General administration	53,529	53,191
School administration	272,675	147,679
Business	70,936	19,275
Operations and maintenance of plant	118,429	80,953
Student transportation	11,491	11,885
Central	31,767	24,169
Other	3,996	12,653
Facilities acquisition		4,714
Unallocated depreciation	49,750	39,417
Total expenses	<u>1,968,878</u>	<u>1,543,331</u>
Increase (decrease) in net position	<u>\$ 86,032</u>	<u>\$ 725,182</u>

# **SOUTHWEST OPEN SCHOOL**

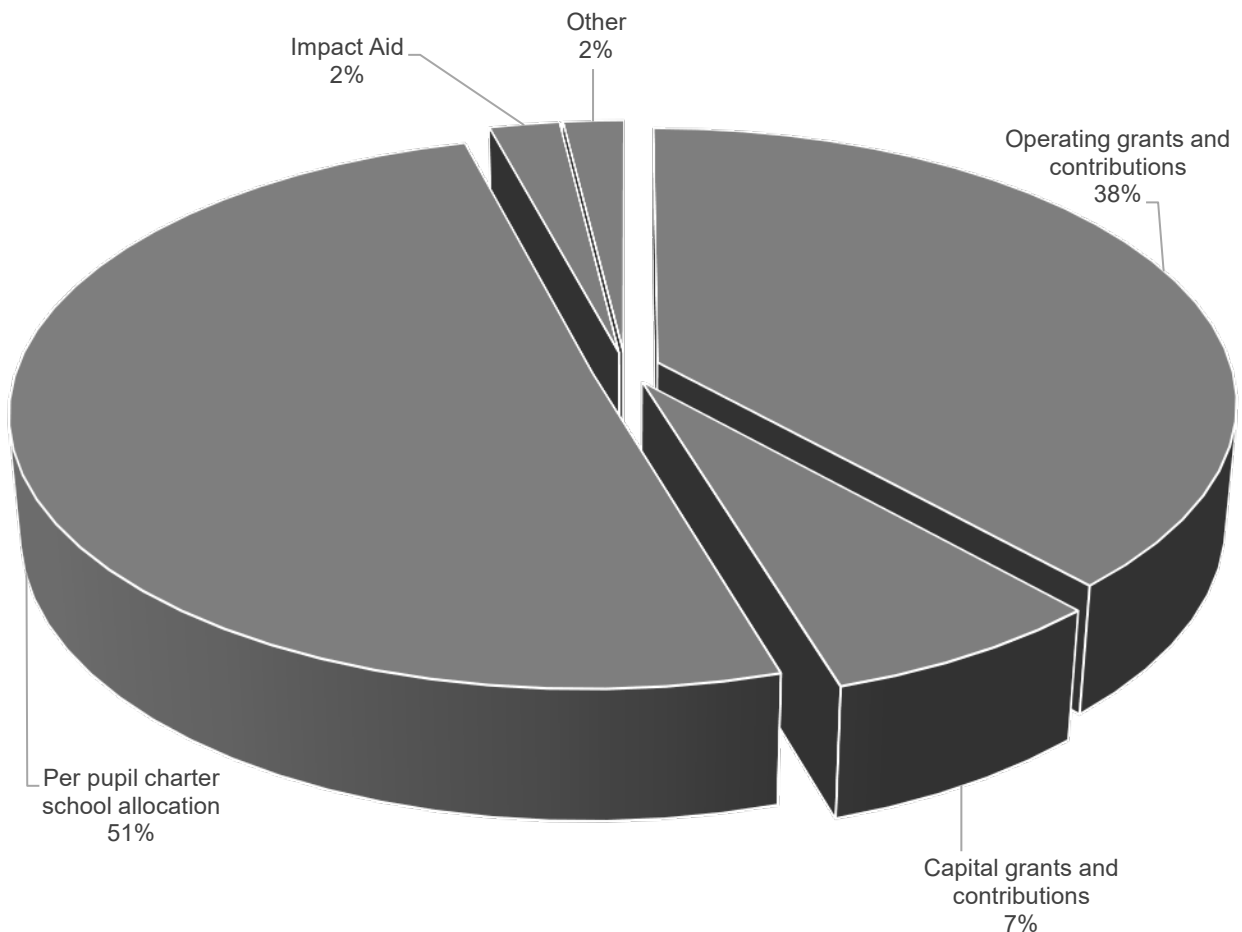
## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

Per pupil charter school allocation accounted for most of the School's total revenue, contributing 51 percent. Another 45 percent came from state and federal grants and the remainder from miscellaneous sources. See Table 3.

The School's expenses are predominately related to instruction at 58.3 percent, administration and business 20.2%, and students and instructional staff 10.6%, operations and maintenance of plant made up 6%. See Table 4.

**Table 3**  
Sources of Revenue for Fiscal Year 2023

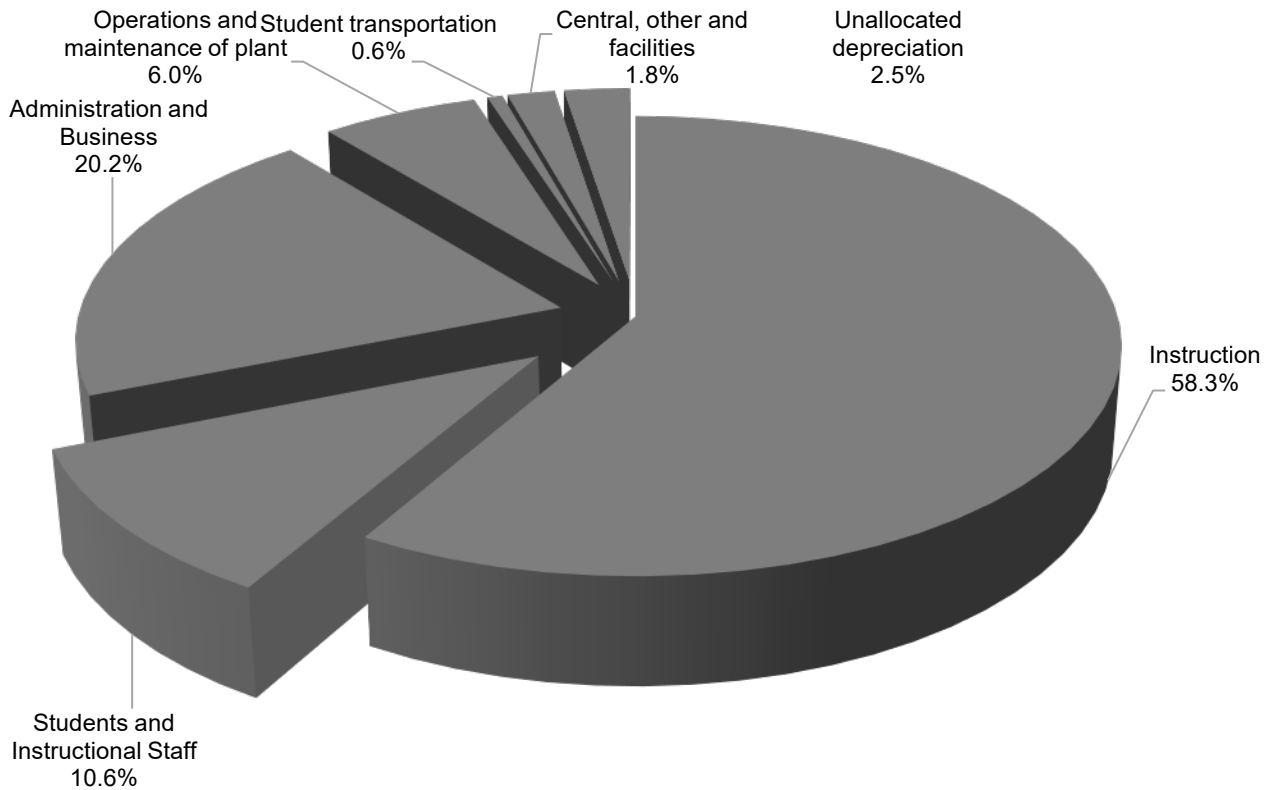


## SOUTHWEST OPEN SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2023

**Table 4**  
Expenses for Fiscal Year 2023



#### ***Governmental Activities***

The primary source of operating revenue for the School comes from per pupil charter school allocation (\$1,037,735) from Montezuma County (Cortez) School District RE-1. The School received \$9,307 per funded student. In fiscal year 2023 the funded pupil count was 111.5. Funding for the charter school allocation comes from property taxes, specific ownership taxes and state equalization.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those service costs. Table 5 shows, for governmental activities, the total cost of services and net cost of services. That is, it identifies the cost of these services supported by the per pupil charter school allocation.

## SOUTHWEST OPEN SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2023

**Table 5**  
Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
Instruction	\$ 1,147,920	\$ 407,079	\$ 535,616	\$ 92,492
Students	195,773	729,142	-	210,832
Instructional staff	12,612	13,174	10,051	13,174
General administration	53,529	53,191	53,529	53,191
School administration	272,675	147,679	258,518	147,679
Business	70,936	19,275	70,936	19,275
Operations and maintenance of plant	118,429	80,953	104,338	71,281
Student transportation	11,491	11,885	11,491	11,885
Central support	31,767	24,169	31,767	24,169
Other	3,996	12,653	3,996	12,653
Facilities acquisition		4,714	(92,329)	(24,914)
Unallocated depreciation	49,750	39,417	49,750	39,417
	<u>\$ 1,968,878</u>	<u>\$ 1,543,331</u>	<u>\$ 1,037,663</u>	<u>\$ 671,134</u>

- The cost of all governmental activities during the year was \$1,968,878.
- Federal and state government subsidized certain programs with grants and contributions (\$931,215).
- However, most of the School's costs (\$1,037,735) were financed by per pupil charter school allocations.

### FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's major governmental funds include the General Fund, Governmental Designed-Purpose Grants Fund and the Capital Projects Fund under GASB 34 reporting requirements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$2,075,434 and expenditures of \$2,189,336.

## SOUTHWEST OPEN SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2023

#### General Fund Budgetary Highlights

The School's budget process is consistent with current Colorado statutes that require a proposed budget be presented to the Board of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through December 31<sup>st</sup> of each year. The most significant budgeted fund is the General Fund.

Over the course of the year, the School revised the annual operating budget by making an increase in appropriations.

- Increases in appropriations were primarily the result of additional information that was obtained after the time the original budget was prepared.
- Actual expenditures were \$757,826 below budget.

#### CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2023, the School has invested \$1,550,945 in buildings and vehicles.

Table 6 shows capital assets for 2023 compared to 2022:

<b>Table 6</b>				
Capital Assets				
At June 30				
			Governmental	
			Activities	
			2023	2022
Buildings			\$1,447,317	\$1,211,926
Vehicles			103,628	\$ 58,628
Accumulated Depreciation			(574,868)	(517,789)
Total			<u>\$ 976,077</u>	<u>\$ 752,765</u>

Additional information on the School's capital assets can be found in Note 3 on page 26 of this report.

## **SOUTHWEST OPEN SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended June 30, 2023

#### **FACTORS BEARING ON THE SCHOOL'S FUTURE**

At the time these financial statements were prepared and audited, the School is not aware of any existing circumstances that could significantly affect its financial health in the future.

#### **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the School's citizens, taxpayers, parents, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Southwest Open School; 401 North Dolores Road; Cortez, Colorado 81321.

**SOUTHWEST OPEN SCHOOL**  
Statement of Net Position

June 30, 2023

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 1,368,745
Due from school district	10,729
Capital assets, net of depreciation	976,077
<b>Total Assets</b>	<u>2,355,551</u>
<b>Deferred Outflows of Resources</b>	
Pension items, net of accumulated amortization	947,590
OPEB items, net of accumulated amortization	30,644
<b>Total Deferred Outflows of Resources</b>	<u>978,234</u>
<b>Liabilities</b>	
Accrued salaries and benefits payable	142,613
Due to other entities	16,880
Unearned grant revenue	18,011
Noncurrent liabilities	
Net pension liability	2,179,290
Net OPEB liability	74,189
<b>Total Liabilities</b>	<u>2,430,983</u>
<b>Deferred Inflows of Resources</b>	
Pension items, net of accumulated amortization	512,125
OPEB items, net of accumulated amortization	36,297
<b>Total Deferred Inflows of Resources</b>	<u>548,422</u>
<b>Net Position</b>	
Net investment in capital assets	976,077
Restricted	
TABOR	60,000
Capital projects	371,360
Unrestricted	(1,053,057)
<b>Total Net Position</b>	<u>\$ 354,380</u>

The accompanying notes are an integral part of this statement



**SOUTHWEST OPEN SCHOOL**  
Statement of Activities

For the Year Ended June 30, 2023

		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue And Changes in Net Position
	Expenses				Governmental Activities
<b>Governmental Activities</b>					
Instructional Program Services	\$ 1,147,920		\$ 567,304	\$ 45,000	\$ (535,616)
Support Program Services					
Students	195,773		195,773		-
Instructional staff	12,612		2,561		(10,051)
General administration	53,529				(53,529)
School administration	272,675		14,157		(258,518)
Business	70,936				(70,936)
Plant operation and maintenance	118,429		8,720	5,371	(104,338)
Student transportation	11,491				(11,491)
Central support services	31,767				(31,767)
Other	3,996				(3,996)
Facilities acquisition				92,329	92,329
Depreciation excluding amounts directly allocated to programs	49,750				(49,750)
<b>Total Governmental Activities</b>	<u>1,968,878</u>	<u>-</u>	<u>788,515</u>	<u>142,700</u>	<u>(1,037,663)</u>
<b>Total School</b>	<u>\$ 1,968,878</u>	<u>\$ -</u>	<u>\$ 788,515</u>	<u>\$ 142,700</u>	<u>(1,037,663)</u>
<b>General Revenues</b>					
Per pupil charter school allocation					1,037,735
Intergovernmental					
Impact Aid					46,283
Miscellaneous					39,677
<b>Total General Revenues</b>					<u>1,123,695</u>
<b>Changes in Net Position</b>					86,032
Net Position Beginning of the Year					268,348
<b>Net Position End of the Year</b>					<u>\$ 354,380</u>

The accompanying notes are an integral part of this statement

**SOUTHWEST OPEN SCHOOL**

Balance Sheet  
Governmental Funds

June 30, 2023

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 1,001,320		\$ 367,425	\$ 1,368,745
Due from other funds	(67,252)	\$ 67,252		-
Due from school district	6,794		3,935	10,729
<b>Total Assets</b>	<u>\$ 940,862</u>	<u>\$ 67,252</u>	<u>\$ 371,360</u>	<u>\$ 1,379,474</u>
<b>Liabilities</b>				
Due to school district	\$ 16,880			\$ 16,880
Unearned grant revenue		\$ 18,011		18,011
Accrued salaries and benefits payable	93,372	49,241		142,613
<b>Total Liabilities</b>	<u>110,252</u>	<u>67,252</u>		<u>177,504</u>
<b>Fund Balances</b>				
Restricted				
Tabor	60,000			60,000
Capital projects			\$ 371,360	371,360
Unrestricted				
Assigned for next year's expenditures	770,610			770,610
<b>Total Fund Balances</b>	<u>830,610</u>	<u>-</u>	<u>371,360</u>	<u>1,201,970</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 940,862</u>	<u>\$ 67,252</u>	<u>\$ 371,360</u>	<u>\$ 1,379,474</u>

**Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position**

**Total Fund Balance Governmental Funds** \$ 1,201,970

Amounts reported for governmental activities in the Statement of Net Position are different because

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

Capital assets	\$ 1,550,945	
Accumulated depreciation	(574,868)	
		<u>976,077</u>

Long-term liabilities and related items, including net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources, are not due and payable in the current year, and, therefore, are not reported in governmental funds.

Net pension obligation	(2,179,290)	
Net OPEB obligation	(74,189)	
Deferred outflows of resources related to pensions - net	947,590	
Deferred outflows of resources related to OPEB - net	30,644	
Deferred inflows of resources related to pensions - net	(512,125)	
Deferred inflows of resources related to OPEB - net	(36,297)	
		<u>(1,823,667)</u>

**Total Net Position Governmental Activities** \$ 354,380

The accompanying notes are an integral part of this statement

**SOUTHWEST OPEN SCHOOL**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds

For the Year Ended June 30, 2023

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>				
Per pupil charter school allocation	\$ 1,037,735			\$ 1,037,735
Local and Intermediate sources	5,525	\$ 110,806	\$ 521	116,852
State sources	117,473	154,815	47,700	319,988
Federal sources	46,283	554,576		600,859
<b>Total Revenues</b>	<u>1,207,016</u>	<u>820,197</u>	<u>48,221</u>	<u>2,075,434</u>
<b>Expenditures</b>				
Instructional Program	641,840	548,986		1,190,826
Support Programs				
Students		195,773		195,773
Instructional staff	10,051	2,561		12,612
General administration	53,529			53,529
School administration	258,110	14,157		272,267
Business	70,661			70,661
Operation and maintenance of plant	104,261	8,720	5,371	118,352
Student transportation	4,162			4,162
Central	31,767			31,767
Other	3,996			3,996
Facilities acquisition		50,000	185,391	235,391
<b>Total Expenditures</b>	<u>1,178,377</u>	<u>820,197</u>	<u>190,762</u>	<u>2,189,336</u>
<b>Other financing sources (uses)</b>				
Transfers in (out)				-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	28,639	-	(142,541)	(113,902)
Fund Balances beginning of the year	801,971	-	513,901	1,315,872
<b>Fund Balances end of the year</b>	<u>\$ 830,610</u>	<u>\$ -</u>	<u>\$ 371,360</u>	<u>\$ 1,201,970</u>

The accompanying notes are an integral part of this statement

**SOUTHWEST OPEN SCHOOL**  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2023

**Net Change in Fund Balances Governmental Funds** \$ (113,902)

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Depreciation expense	\$	(57,079)	
Capital outlay		280,391	
			223,312

Governmental funds expenditures related to pensions and OPEB obligations are measured by the amount of financial resources used (essentially, the amounts actually paid to the pension plan), whereas in the Statement of Activities, they are measured on the full accrual basis. This amount represents the change in net pension liability, net OPEB liability, pension and OPEB related deferred outflows and inflows of resources.

Pension contributions		202,715	
Cost of pension benefits earned net of employee contributions		(216,444)	
Support from the State of Colorado		(20,525)	
OPEB contributions		10,146	
Cost of OPEB benefits earned net of employee contributions		730	
			(23,378)

<b>Change in Net Position of Governmental Activities</b>		<u>\$ 86,032</u>	
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The accompanying notes are an integral part of this statement

**SOUTHWEST OPEN SCHOOL**

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
General Fund

For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>Revenues</b>				
Local and Intermediate sources				
Per-pupil charter school allocation	\$ 1,215,000	\$ 1,040,072	\$ 1,037,735	\$ (2,337)
Public Lands	23,081			-
Other		5,127	5,525	398
Total local sources	<u>1,238,081</u>	<u>1,045,199</u>	<u>1,043,260</u>	<u>(1,939)</u>
State sources				
Grants		63,301	63,318	17
State direct PERA Contribution	18,157	18,157	54,155	35,998
Total state sources	<u>18,157</u>	<u>81,458</u>	<u>117,473</u>	<u>36,015</u>
Federal sources				
Impact Aid	27,600	40,516	46,283	5,767
Total federal sources	<u>27,600</u>	<u>40,516</u>	<u>46,283</u>	<u>5,767</u>
<b>Total revenues</b>	<u>1,283,838</u>	<u>1,167,173</u>	<u>1,207,016</u>	<u>39,843</u>
<b>Expenditures</b>				
Instructional program	711,480	758,455	641,840	116,615
Instructional staff	12,882	11,096	10,051	1,045
General administration	67,600	59,754	53,529	6,225
School administration	249,125	258,593	258,110	483
Business	64,832	67,465	70,661	(3,196)
Operation and maintenance of plant	111,672	124,421	104,261	20,160
Student transportation	5,144	5,144	4,162	982
Central	37,023	36,007	31,767	4,240
Other	7,269	7,601	3,996	3,605
Appropriated reserves	671,811	607,667		607,667
<b>Total expenditures</b>	<u>1,938,838</u>	<u>1,936,203</u>	<u>1,178,377</u>	<u>757,826</u>
<b>Other financing sources (uses)</b>				
Transfers out				-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of revenues over (under) expenditures</b>	(655,000)	(769,030)	28,639	797,669
Fund Balances beginning of the year	655,000	769,030	801,971	32,941
<b>Fund Balances end of the year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 830,610</u>	<u>\$ 830,610</u>

The accompanying notes are an integral part of this statement.

**SOUTHWEST OPEN SCHOOL**

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Governmental Designated-Purpose Grants Fund

For the Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources				
Grants	\$ 18,249	\$ 125,924	\$ 110,806	\$ (15,118)
State sources				
Grants	46,430	77,563	154,815	77,252
Federal sources				
Grants	843,464	693,605	554,576	(139,029)
<b>Total Revenues</b>	<u>908,143</u>	<u>897,092</u>	<u>820,197</u>	<u>(76,895)</u>
<b>Expenditures</b>				
Instructional program	853,079	673,471	548,986	124,485
Students	46,064	151,140	195,773	(44,633)
Instructional staff		2,561	2,561	-
School administration	9,000	11,200	14,157	(2,957)
Operations and maintenance of plant		8,720	8,720	-
Facilities		50,000	50,000	-
<b>Total Expenditures</b>	<u>908,143</u>	<u>897,092</u>	<u>820,197</u>	<u>76,895</u>
Excess revenues over (under) expenditures	-	-	-	-
Fund Balances beginning of the year	-	-	-	-
<b>Fund Balances end of the year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

### 1. Summary of Significant Accounting Policies

The financial statements of Southwest Open School ("School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements of Interpretations).

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

**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 the organization has the potential to provide benefits to or impose financial burdens on the School. Based on the application of this criteria, the school does not include additional organizations within its reporting entity.

The School is a component unit of the Montezuma County (Cortez) School District RE-1 ("District"). The School's charter was granted by the District and the majority of the School's funding is provided by the District.

**Government-wide and Fund Financial Statements** –The government-wide financial statements (the statement of net position and the statement of activities) display information about the School as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expense of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) fees and 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 intergovernmental revenues not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported in separate columns in the fund financial statements.

**Measurement Focus and Basis of Accounting** – 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

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

incurred, regardless of the timing of the related cash flow. On an accrual bases, grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the school considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

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 accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the School is consistent with legal and managerial requirements. The School reports the following major governmental funds:

**General Fund** is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil funding from the School.

**Governmental Designated-Purpose Grants Fund** maintains a separate accounting for programs funded by local, state and federal grants.

**Capital Projects Fund** is used to account for the accumulation of resources and expenditure of resources for capital improvements within the School.

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

**Cash and Investments** include investments with original maturities of three months or less. Investments are reported at fair value.

**Due to/from the School District** – Amounts that are due to/from the District are normal transactions that are paid in the next three months or less.

**Short-term Interfund Receivable/Payables** – During the course of operations, transactions occur between individual funds for goods provided or services rendered. These are paid in the next three months or less.



## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

**Grants Receivable** – State and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Grants receivable are recorded when expenditures are made, and the grant monies have not yet been received.

**Capital Assets** - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value of the date donated. The School maintained a capitalization threshold of \$25,000 for major outlays for building and improvements. The School does not possess any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the life of an asset are not capitalized.

Depreciation of exhaustible capital assets is charged as an expense against operations in the statement of activities, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives; building and improvements 20-50 years, and vehicles 8 years.

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

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

**Accrued Salaries and Benefits Payable** – represent the liability to teachers and certain other employees who earn their salaries over the nine-month school year but are paid over a twelve-month period. Changes in the accrual are reflected in expenditures or expense on the applicable fund's statement of revenue, expenditures and changes in fund balance.

**Compensated Absences** – The School's policy allows employees to accumulated sick leave. Upon termination of employment, no financial compensation is paid for unused sick day. Therefore, no liability for accumulated sick leave is reported in the financial statements.

# **SOUTHWEST OPEN SCHOOL**

## **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023

**Federal and State Administered Grants** are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

**Fund Equity** – The fund balance of the governmental funds is reported in classifications based on the extent to which the School is bound to honor constraints for the specific purposes on which amount in the fund can be spent as follows:

- Nonspendable fund balance represents assets that cannot be spent either because of their form or legally or contractually must be maintained intact.
- Restricted fund balance reflects resources that are subject to externally enforceable legal limitations.
- Committed fund balance is the portion that is limited to specific purposes determined by a formal action of the Board.
- Assigned fund balance displays the School's intended use of these resources.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balances consist of required TABOR reserves of \$60,000 and \$371,360 for capital projects

When determining categories of fund balance, it is assumed that the type of expenditure determines the primary use of the fund balance. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. Once the commitment or assignment is satisfied unassigned resource are used.

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

**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.

# **SOUTHWEST OPEN SCHOOL**

## **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023

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

**Inter-fund Transactions** - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**Budgets and Budgetary Accounting** – The School is required by Colorado Statutes to adopt annual budgets for all funds. Each budget is prepared on the same basis (GAAP basis) as that used for accounting purposes.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the Superintendent's staff submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.

The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain comments.

Prior to June 30, the budget is legally adopted through passage of a resolution by the Board of Education. However, the Board can review and change the adopted budget through December 31.

Formal budgetary integration is employed as a management control device during the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed by the School as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

### 2. Cash and Investments

**Custodial credit risk** for deposits is the risk that, in the event of a bank failure, the School's deposits might not be recovered. However, there is no custodial risk for public deposits because they are collateralized under the Colorado Public Deposit Protection Act (PDPA). The PDPA specifies eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local governmental depositors as a group, with a market value at least 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

At June 30, 2023, the carrying amount of the School's cash was \$1,368,745 in demand deposits. The School's bank balances of \$1,497,470 at June 30, 2023 and during the year ended June 30, 2023 were entirely covered by FDIC insurance or pledged collateral held by the School's agent banks in the name of governmental accounts of which the School is a part.

### 3. Capital Assets – Capital asset activity for the fiscal year ended June 30, 2023 follows:

	Capital Assets <u>July 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	Capital Assets <u>June 30, 2023</u>
Governmental Activities				
Capital Assets, being depreciated				
Buildings	\$ 1,211,926	\$ 235,391		\$ 1,447,317
Equipment and vehicles	58,628	45,000		103,628
	<u>1,270,554</u>	<u>280,391</u>		<u>1,550,945</u>
Less Accumulated Depreciation				
Buildings	(503,131)	(44,125)		(547,256)
Equipment and vehicles	(14,658)	(12,954)		(27,612)
	<u>(517,789)</u>	<u>(57,079)</u>		<u>(574,868)</u>
Governmental Activities Capital Assets, net	<u>\$ 752,765</u>	<u>\$ 223,312</u>	<u>\$ -</u>	<u>\$ 976,077</u>

### 4. Defined Benefit Pension Plan

*Plan description-* Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.copera.org/investments/pera-financial-reports](http://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% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

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.

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

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

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

*Contributions provisions as of June 30, 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 are established under C.R.S. § 24-51-401, *et seq* and C.R.S. § 24-51-413. Eligible employees are required to contribute 11.00% of their PERA-includable salary during the period of July 1, 2022 through June 30, 2023. The employer contribution requirements are summarized in the table below:

	July 1, 2022 Through June 30, 2023
Employer Contribution Rate	11.40%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02)%
Amount Apportioned to the SCHDTF	10.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	5.50%
<b>Total Employer Contribution Rate to the SCHDTF</b>	<b>20.38%</b>

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 \$202,715 for the year ended June 30, 2023.

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

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

treasurer to issue an additional direct distribution to PERA 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 and 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 as of December 31, 2022, and the total pension liability 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 total pension liability to December 31, 2022. The School's proportion of the net pension liability was based on School contributions to the SCHDTF for the calendar year 2022 relative to the total contributions of the participating employers and the State as a nonemployer contributing entity.

At June 30, 2023, the School reported a liability of \$2,179,290 for its proportionate share of the net pension liability. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the School were as follows:

District's proportionate share of the net pension liability	\$ 2,179,290
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The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the District	635,067
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Total	<u>\$ 2,814,357</u>
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At December 31, 2022, the School's proportion was .0119678986 percent, which was an increase of .001693 percent from its proportion measured as of December 31, 2021.

For the year ended June 30, 2023, the School recognized pension expense of \$34,254 and \$20,525 in revenue 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:

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 20,625	
Changes in assumptions	38,602	
Net difference between projected and actual earnings	681,140	\$ 388,381
Changes in proportion and differences between contributions recognized and proportionate share of contributions	107,722	123,744
Contributions subsequent to the measurement date	99,501	
Total	<u>\$ 947,590</u>	<u>\$ 512,125</u>

\$99,501 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2024	\$ 3,309
2025	45,151
2026	117,219
2027	170,285

*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	2.30%
Real wage growth	.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.40% – 11.00%



## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (compounded annually)	1.00%
PERA Benefit Structure hired after 12/31/06 <sup>1</sup>	Financed by the AIR

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

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

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

Post-retirement non-disability 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 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 were based upon the PubNS-2010 Disabled Retiree Table using 99 percent of the rates for all ages with generational projection using scale MP-2019.

The 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 reviewed and adopted by the PERA Board at their November 20, 2020 meeting.

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

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

Several factors were considered in evaluating the long-term rate of return for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) were developed by the investment consultant 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% long-term expected rate of return as of November 18, 2016. Following an asset/liability study, the Board reaffirmed the assumed rate of return at the Board's November 15, 2019, meeting, to be effective January 1, 2020. As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives <sup>1</sup>	6.00%	4.70%
<b>Total</b>	<b>100.00%</b>	

*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%.

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

Total covered payroll for the initial projection year consisted 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 years, total covered payroll was assumed to increase annually at a rate of 3.00%.

## **SOUTHWEST OPEN SCHOOL**

### **NOTES TO THE FINANCIAL STATEMENTS**

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Employee contributions were assumed to be made at the current member contribution rates in effect for each year, including the scheduled increases in 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, and 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 percent every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

As specified in law, the State, 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 used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

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

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's FNP was projected to be available to make all projected 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

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

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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 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$2,851,941	\$2,179,290	\$1,617,558

*Pension plan fiduciary net position.* Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

## 5. Other Post-Employment Benefits

*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 from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://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.

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

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

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

#### *PERA Benefit Structure*

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% 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.

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$10,146 for the year ended June 30, 2023.

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

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 \$74,189 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of 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 TOL 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 2022 relative to the total contributions of participating employers to the HCTF.

At December 31, 2022, the School proportion was .0091 percent, which was an increase of .0017 percent from its proportion measured as of December 31, 2021.

For the year ended June 30, 2023, the School recognized OPEB expense of \$(10,876). At June 30, 2023, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 10	\$ 17,941
Changes in assumptions	1,192	8,188
Net difference between projected and actual earnings on pension plan investments	8,137	3,606
Changes in proportion and differences between contributions recognized and proportionate share of contributions	16,325	6,562
Contributions subsequent to the measurement date	4,980	
Total	<u>\$ 30,644</u>	<u>\$ 36,297</u>

\$4,980 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

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

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in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended June 30:**

2024	\$ (7,822)
2025	(5,754)
2026	(884)
2027	2,357
2028	1,157
2029	313

*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	2.30%
Real wage growth	0.70%
Wage inflation	3.00%
Salary increases, including wage inflation	3.20% -11.30%
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	6.50% in 2022 gradually decreasing to 4.50% in 2029
Medicare Part A premiums	3.75% in 2022, gradually increasing to 4.50% in 2029

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

# SOUTHWEST OPEN SCHOOL

## NOTES TO THE FINANCIAL STATEMENTS

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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.

### Age-Related Morbidity Assumptions

Participant Age	Annual Increase (Male)	Annual Increase (Female)
65-69	3.0%	1.5%
70	2.9%	1.6%
71	1.6%	1.4%
72	1.4%	1.5%
73	1.5%	1.6%
74	1.5%	1.5%
75	1.5%	1.4%
76	1.5%	1.5%
77	1.5%	1.5%
78	1.5%	1.6%
79	1.5%	1.5%
80	1.4%	1.5%
81 and older	0.0%	0.0%

Sample Age	MAPD PPO #1 with Medicare Part A		MAPD PPO #2 with Medicare Part A		MAPD HMO (Kaiser) with Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$1,704	\$1,450	\$583	\$496	\$1,923	\$1,634
70	\$1,976	\$1,561	\$676	\$534	\$2,229	\$1,761
75	\$2,128	\$1,681	\$728	\$575	\$2,401	\$1,896

Sample Age	MAPD PPO #1 without Medicare Part A		MAPD PPO #2 without Medicare Part A		MAPD HMO (Kaiser) without Medicare Part A	
	Retiree/Spouse		Retiree/Spouse		Retiree/Spouse	
	Male	Female	Male	Female	Male	Female
65	\$6,514	\$5,542	\$4,227	\$3,596	\$6,752	\$5,739
70	\$7,553	\$5,966	\$4,901	\$3,872	\$7,826	\$6,185
75	\$8,134	\$6,425	\$5,278	\$4,169	\$8,433	\$6,657



## **SOUTHWEST OPEN SCHOOL**

### **NOTES TO THE FINANCIAL STATEMENTS**

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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 heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 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.

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

<b>Year</b>	<b>PERACare Medicare Plans</b>	<b>Medicare Part A</b>
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 reflect generational mortality and were 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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

Post-retirement non-disabled mortality assumptions for the State and Local Government Divisions (members other than State Troopers) were based on 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:** 97% 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 mortality assumptions for the School and Judicial Divisions were based on 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.

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

- 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 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.

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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 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 every four to five years for PERA. Recently this assumption has been reviewed more frequently. The most recent analyses were outlined in the Experience Study report dated October 28, 2020.

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.

As of the most recent reaffirmation of the long-term rate of return, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
Global Equity	54.00%	5.60%
Fixed Income	23.00%	1.30%
Private Equity	8.50%	7.10%
Real Estate	8.50%	4.40%
Alternatives <sup>1</sup>	6.00%	4.70%
<b>Total</b>	<b>100.00%</b>	

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%.

*Sensitivity of the School's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability using the current health care cost

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

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trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Initial PERACare Medicare trend rate	5.25%	6.25%	7.25%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	3.00%	4.00%	5.00%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	393,596	405,061	417,536

*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 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.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	76,474	74,189	72,089

*OPEB plan fiduciary net position.* Detailed information about the HCTF's FNP is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

## 6. Defined Contribution Pension Plan

### Voluntary Investment Program

Plan Description – Employees of the School that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24 Article 51 Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees, PERA issues a publicly available comprehensive annual financial report for the Plan. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The School has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2023, program members contributed \$5,262 to the Voluntary Investment Program.

- 7. Accrued Salaries** – Certified instructors of the School are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling \$142,613, is reflected as an accrued expense at June 30.

## SOUTHWEST OPEN SCHOOL

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

- 8. Fund Balance Restrictions and Assignments** – Restricted indicates that a portion of the fund balance can only be spent for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors. Assigned indicates amounts that are designated for a specific purpose by the Board of Education but are not spendable until appropriated. The School uses the following restrictions and assignments:

#### **Restricted**

**TABOR** – indicates that a portion of the fund balance has been segregated for expenditures for declared emergencies only. Fund balance restricted for emergencies consists of \$60,000 in the General Fund.

**Capital projects**- indicates that the fund balance of \$371,360 in the Capital Projects Fund has been restricted for major capital purchases.

#### **Assigned**

**Assigned for future expenditures** – indicates anticipated fund balance available for appropriation in the next budget year. Fund balances assigned for future expenditures consist of \$ 770,610 in the General Fund.

- 9. Risk Management** – The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School is a member of the Colorado School Schools Self-Insurance Pool (The Pool). The Pool was formed in 1981 to provide 93-member school Schools and related educational facilities with defined property and liability coverage through joint self-insurance and excess insurance. The School pays an annual premium for its general insurance coverage. The Pool is self-sustaining through member premiums and obtains excess insurance to limit per occurrence exposure to \$250,000.

The School continues to carry commercial insurance for all other risks of loss including worker's compensation and employee health and accident insurance. There have been no settled claims that have exceeded insurance coverage in any of the past three fiscal years. There have been no significant decreases in insurance coverage from the prior year.

In addition, the School participates in the Montezuma County (Cortez) School RE-1 Self Insurance Fund to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of \$110,000, with a maximum aggregate benefit of \$1,000,000.

- 10. Tax, Spending, and Debt Limitations** – Colorado Voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The

## **SOUTHWEST OPEN SCHOOL**

### **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023

people of the School voted to authorize the spending of all monies in existing funds and to collect, retain, and expend the full revenue, including state grants and taxes, generated during fiscal year 1998 and for each subsequent year regardless of any limitation contained in Article X, Section 20, of the Colorado Constitution. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with all other requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

- 11. Commitments and Contingent Liabilities** – There were no commitments or contingent liabilities at June 30.

**SOUTHWEST OPEN SCHOOL**  
Required Supplementary Information

June 30, 2023

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

Such information includes:

Pension Schedules

Schedule of School's Pension Contributions

Schedule of School's Proportionate Share of the Net Pension Liability

OPEB Schedules

Schedule of School's OPEB Contributions

Schedule of the School's Proportionate Share of the Net OPEB Liability



**SOUTHWEST OPEN SCHOOL**  
Schedule of School's Pension Contributions

June 30, 2023  
Last 10 Years\*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$202,715	\$ 159,135	\$133,149	\$135,055	\$129,151	\$138,036	\$136,911	\$125,215	\$135,600
Contributions in relation to the statutory required contribution	202,715	159,135	133,149	135,055	129,151	138,036	136,911	125,215	135,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$994,666	\$ 800,465	\$669,755	\$696,869	\$675,111	\$731,206	\$745,123	\$703,211	\$802,153
Contributions as a percentage of covered payroll	20.38%	19.88%	19.88%	19.38%	19.13%	18.88%	18.37%	17.81%	16.90%

\* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

*Notes to Required Supplementary Information*

See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

**SOUTHWEST OPEN SCHOOL**  
Schedule of the School's Proportionate Share of the Net Pension Liability

June 30, 2023  
Last 10 Years\*

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
School's proportion of the net pension liability	0.01196790%	0.01132241%	0.01298658%	0.01182502%	0.01262629%	0.01589155%	0.01781632%	0.01624122%	0.01732241%
School's share of the net pension liability	\$ 2,179,290	\$ 1,317,631	\$ 1,963,309	\$ 1,766,632	\$ 2,235,745	\$ 5,138,764	\$ 5,304,608	\$ 2,483,979	\$ 2,347,768
School's share of State's share of the net pension liability as nonemployer contributing entity	\$ 635,067	\$ 151,050	-	\$ 224,075	\$ 305,707				
	<u>\$ 2,814,357</u>	<u>\$ 1,468,681</u>	<u>\$ 1,963,309</u>	<u>\$1,990,707</u>	<u>\$ 2,541,452</u>				
School's covered payroll	\$ 922,058	\$ 707,615	\$ 694,547	\$ 694,888	\$ 691,636	\$ 733,058	\$ 799,753	\$ 707,552	\$ 725,688
School's proportionate share of the net pension liability as a percentage of its covered payroll	305.23%	207.55%	282.67%	286.48%	323.25%	701.00%	663.28%	351.07%	323.52%
Plan fiduciary net position as a percentage of the total pension liability	61.79%	74.86%	66.99%	64.52%	57.01%	43.96%	43.13%	59.20%	64.07%

\* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

Notes to Required Supplementary Information  
See Note 4 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

**SOUTHWEST OPEN SCHOOL**  
Schedule of School's OPEB Contributions

June 30, 2023  
Last 10 Years\*

	2023	2022	2021	2020	2019	2018	2017
Statutorily required contributions	\$ 10,146	\$ 8,164	\$ 6,831	\$ 7,108	\$ 6,886	\$ 7,458	\$ 7,600
Contributions in relation to the statutory required contributor	\$ 10,146	\$ 8,164	6,831	7,108	6,886	7,458	7,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$994,666	\$800,465	\$669,755	\$696,869	\$675,111	\$731,206	\$745,123
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%

\* Information is not available for years prior to 2017.

*Notes to Required Supplementary Information*

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

**SOUTHWEST OPEN SCHOOL**  
Schedule of the School's Proportionate Share of the Net OPEB Liability

June 30, 2023  
Last 10 Years\*

	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
School's proportion of the Net OPEB Liability	0.00908642%	0.00739267%	0.00751069%	0.00772821%	0.00820716%	0.00902951%	0.01012700%
School's share of the Net OPEB Liability	\$ 74,189	\$ 63,747	\$ 71,368	\$ 86,865	\$ 111,662	\$ 117,348	\$ 131,300
School's covered payroll	\$ 922,058	\$ 707,615	\$ 694,547	\$ 694,888	\$ 691,636	\$ 733,058	\$ 745,124
School's proportionate share of the net pension liability as a percentage of its covered payroll	8.05%	9.01%	10.28%	12.50%	16.14%	16.01%	17.62%
Plan fiduciary net position as a percentage of the total pension liability	38.57%	39.40%	32.78%	24.49%	17.03%	17.53%	16.72%

\* Information is not available for years prior to 2016.

*Notes to Required Supplementary Information*

See Note 5 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

**SOUTHWEST OPEN SCHOOL**  
Other Supplementary Information

June 30, 2023

Other supplementary information includes financial statements and schedules not required by the GASB, or a part of the basic financial statements, but are presented for purposes of additional analysis.

These statements and schedules include:

Budgetary Comparison Schedules  
Capital Projects Fund

**SOUTHWEST OPEN SCHOOL**

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Capital Projects Fund

For the Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable)
<b>Revenues</b>				
Local sources				
Earnings of Investments			\$ 521	\$ 521
Total local sources			521	521
State sources				
Grants	\$ 39,596	\$ 48,322	47,700	(622)
<b>Total Revenues</b>	<b>39,596</b>	<b>48,322</b>	<b>48,221</b>	<b>(101)</b>
<b>Expenditures</b>				
Support Programs				
Operation and maintenance of plant		5,370	5,371	(1)
Facilities acquisition	553,331	286,014	185,391	100,623
Appropriated reserves		267,589		267,589
<b>Total Expenditures</b>	<b>553,331</b>	<b>558,973</b>	<b>190,762</b>	<b>368,211</b>
<b>Other financing sources (uses)</b>				
Transfers in				-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(513,735)</b>	<b>(510,651)</b>	<b>(142,541)</b>	<b>368,110</b>
Fund Balances beginning of the year	513,735	510,651	513,901	3,250
<b>Fund Balances end of the year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 371,360</b>	<b>\$ 371,360</b>