

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

The Management Discussion and Analysis (MD&A) of Pikes Peak School of Expeditionary Learning's (PPSEL/School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2019. Readers should also review the Financial Statements and Notes to Financial Statements to better understand the School's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board in their Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, issued June, 1999.

The mission of PPSEL is to develop a community that embraces and actively cultivates a challenging and engaging learning environment. Employing collaborative teaching methods and diverse individual learning opportunities, the School endeavors to develop motivated, independently thinking individuals who demonstrate skillful articulation of learning, solid academic achievement, social confidence and service to the community.

Financial Highlights

The year ended June 30, 2019 is the School's twentieth year of operations. The General Fund balance increased \$317,739 to \$2,506,556 from \$2,188,817 for the prior year. This increase is significant in that it will allow the School to remain financially viable and stable when facing future potential budget cuts at the State level.

The School's operations are funded by tax revenue received under the State School Finance Act. Tax revenue for the year from Per Pupil Revenue was \$3,077,049. The School operated within the budget approved by the Board of Directors. A budget revision, based on the official student count of 394, was approved in January 2019.

The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). As of June 30, 2019, the School is required to report a net pension liability of \$4,340,056, representing its proportionate share of the net pension liability of the SDTF. ALL COLORADO SCHOOLS ARE REQUIRED TO REPORT THIS LIABILITY. IT DOES NOT CHANGE THE ACTUAL FINANCIAL OVERVIEW OF THE SCHOOL. The School has no input into the management of the SDTF and is required by Colorado Law to participate in the pension plan. The impact of this change in reporting will appear in the enclosed Financial Reports. Please refer to Note 6 for more detail.

PPSEL operates under the supervision of a five member Board of Directors. The Board of Directors assigns responsibility of the School's operation to the Administrator and School staff. An independent accountant prepares and the Board of Directors reviews financial reports on a quarterly schedule. These reports include, but are not limited to: the Balance Sheet and the Budget vs. Actual Income Statement. The Falcon School District #49 (District) Finance Director receives a monthly Trial Balance Report in addition to these quarterly financial reports.

The combined financial statements of PPSEL include statements for the PPSEL Building Corporation, the entity that holds the debt for the School facility. PPSEL has a renewable one year lease with PPSEL Building Corporation for use of the facility. Note 5 to the financial statements provides additional information about the long-term debt.

Overview of Financial Statements

This MD&A is intended to serve as an introduction to PPSEL's financial statements. The statements are comprised of four components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, 3) Notes to the Financial Statements, and 4) Required Supplementary Information.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information regarding all School assets and liabilities, with the difference reported as the Net Position. Over time, the increases or decreases in the net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of Activities (Revenues and Expenses) presents information showing how the School's Net Position changed during the year. All changes in the Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities for some items that will result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of PPSEL can be divided into two categories: Governmental Funds and Proprietary Funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as balances of resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements. PPSEL maintains one government fund which includes all operating activity.

Proprietary Funds: PPSEL Building Corporation, considered a component unit of the School, has one fund identified as the Proprietary Fund. Its activity is related to holding title to the School facility and processing the Colorado Educational and Cultural Facilities Authority Loan Agreement associated with the facility financing.

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information

The Required Supplementary Information includes a Budgetary Comparison Schedule of the General Fund with additional notes.

Government-wide Financial Statement Analysis

For PPSEL and the PPSEL Building Corporation, Liabilities exceeded Assets by \$4,309,352 as of the close of the 2018/2019 fiscal year compared to Liabilities exceeding Assets by \$3,038,620 in the prior year. The negative balance is a result of adopting GASB Statement No. 68, which requires the School to report its proportionate share of the net pension liability of its defined benefit pension plan.

Current and Other Assets make up 37% of PPSEL and the PPSEL Building Corporation's Total Assets (of which \$38,658 or .5% is restricted for the Building Corporation debt service.) Capital Assets, which reflect the Building Corporation's investment in real and personal property and equipment, currently make up 63% of Total Assets. Total Liabilities decreased by \$22,171 before the inclusion of the Net Pension Liability.

Charges for Services include Pre-Kindergarten Tuition, Expeditionary Activity Fees, and After School Program Revenues. The School's official student count increased to 394 in 2018/2019 from 394 in 2017/2018. Per Pupil Revenue makes up 89% of the School's Total Revenue and increased from \$2,882,487 to \$3,077,049 for a total growth of \$194,562.

Fund Financial Statement Analysis

As noted earlier, PPSEL uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The financial detail on the previous page consolidates the governmental fund and proprietary fund.

Governmental Funds: The focus of Pikes Peak School of Expeditionary Learning's governmental fund is to provide information on near-term inflows, outflows and balances of spendable resources for only the School.

This is the School's twentieth year of operation. The Governmental Fund Revenue for FY 2018/2019 was \$3,536,910 compared to \$3,382,219 the prior year. The Government Fund Expenses for FY 2018/2019 were \$3,219,171 compared to \$3,138,175 the prior year. At the end of the fiscal year, the School had an ending Governmental Fund balance of \$2,506,556 an increase of \$317,739 over the prior year balance of \$2,188,817.

Proprietary Fund: Net Position of the Building Corporation as of June 30, 2019 is (\$302,392) compared to (\$265,482) the prior year, an increase of \$36,910. The balance will become positive as the debt is paid down.

Budgetary Highlights

PPSEL approves a Budget in the spring based on enrollment projections for the following school year. In January 2019 after enrollment was finalized, a Revised Budget was approved by the PPSEL Board of Directors. The Revised Budget reflects changes in Per Pupil Revenue and Purchased Services costs for Falcon School District #49 provided services which are based on the finalized student count.

The majority of the actual General Fund spending is for Salaries and Benefits (61%). Purchased Services, excluding lease payments to the Building Corporation, make up 18% of total expenditures. The primary source of spending under Purchased Services is for those services provided by District #49 for Special Education (\$277,652) and Administration (\$70,348). Expenses related to leasing the building are 13% of the total General Fund expenditures. Expenditures in the General Fund were within the approved budgets for fiscal year 2018/2019.

Capital Asset and Debt Administration

Capital assets: As of June 30, 2019, the PPSEL Building Corporation owns land and land improvements with a carrying value of \$548,380, a building capitalized at \$5,138,051, Equipment and Furniture totaled \$109,856 and Land Improvements at \$148,609. The carrying value of capital assets net of accumulated depreciation is \$4,278,481. More detail on capital assets is available in Note 4 to the financial statements.

Long-term debt: In January, 2008, the Building Corporation obtained financing of \$6,500,000 from bonds issued by the Colorado Educational and Cultural Facilities Authority at an interest cost of 6.625%. In December, 2015, the Colorado Educational and Cultural Facilities Authority issued \$6,189,136 Charter School Refunding Revenue Bonds, Series 2015 at an interest rate of 3.5%. The School will continue to make lease payments for use of the facility, which the Building Corporation will use to make the required principal and interest payments on the debt. These transactions flow through the Colorado State Intercept Program where the State withholds a portion of the Per Pupil Funding and transfers the funds to a designated trustee that in turn makes the principal and interest payments when due. Note 5 to the financial statements provides additional information about long-term debt.

Next Year's Budget

The School's FY 2019/2020 Budget is based on a student count of 393 and a Per Pupil Revenue of \$7,800.00.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to Mr. Don Knapp, Principal, Pikes Peak School of Expeditionary Learning, 11925 Antlers Ridge Drive, Falcon, CO 80831.