

**CHALLENGE TO EXCELLENCE CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 11:10 am, Nov 01, 2016*

**CHALLENGE TO EXCELLENCE CHARTER SCHOOL**

**ROSTER OF SCHOOL OFFICIALS**

June 30, 2016

**GOVERNING COUNCIL**

Chair	John Teska
Vice Chair	John Backstrom
Secretary	Jocelyn Rhymer
Councilperson	Alec Lee
Councilperson	Anne Denham
Councilperson	Kimberley Hubbs
Councilperson	Dustin Zvonek

**SCHOOL MANAGEMENT**

Donna Mitchell, Principal

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Governing Council  
Challenge to Excellence Charter School  
Parker, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Challenge to Excellence Charter School, as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

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

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

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

*Ernst & Young LLP*

September 22, 2016

# **Challenge to Excellence**

## Management's Discussion and Analysis

### Fiscal Year Ending June 30, 2016

As management of Challenge to Excellence (C2E), we offer readers of C2E's basic financial statements this narrative and analysis of the financial activities of Challenge to Excellence for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

#### **Financial Highlights**

The year ended June 30, 2016 was the fourteenth year of operations for C2E. The general fund balance for the fiscal year ending June 30, 2016 is \$1,813,898, a \$39,332 decrease from fiscal year 2014-2015.

The operations of C2E are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$3,360,361.

#### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to C2E's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of C2E's finances in a manner similar to a private-sector business.

The statement of net position presents information on all C2E's assets and liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of C2E is improving or deteriorating. The statement of activities presents information showing how C2E's net position changed during the year. All changes in 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 for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of C2E that are primarily supported by the per pupil operating revenue passed from Douglas County School District. These activities include instruction and supporting services.

## ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. C2E keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of C2E's near-term financing decisions. When applicable, both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

C2E maintains one governmental fund, and adopts an annual appropriated budget for the governmental fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget.

**Proprietary Fund.** C2E maintains one individual proprietary fund, the C2E Building Corporation (Building Corporation), that was created to hold title to real estate and other property on behalf of C2E. It is considered a component unit of C2E and is presented separately in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for Proprietary Funds. The C2E Building Corporation is not required to adopt an annual appropriated budget and does not.

## ***Notes to Financial Statements***

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

## **Government-wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of C2E's financial position. For the year ended June 30, 2016, C2E's total net position was a negative \$4,642,663 due to the net pension liability in the amount of \$6,654,262, representing its proportionate share of the net pension liability of 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).

Of C2E's total net position, negative \$1,242,932 is invested in capital assets net of related debt, negative \$4,163,162 is unrestricted, and \$125,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. An additional \$508,417 is restricted for debt service and \$130,014 is restricted for building repairs.

### **C2E has Adopted GASB 68**

C2E's Net Position is a negative \$4,642,663. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$6,654,262, representing its proportionate share of the SDTF's net pension liability.

<b>Statement of Net Position</b>	<b>2015-2016</b>	<b>2014-2015</b>
<b>Assets</b>		
Cash	\$ 1,970,370	\$ 1,727,202
Restricted Cash and Investments	663,684	927,519
Accounts Receivable	1,404	5,271
Prepaid Expenses	5,763	3,830
Capital Assets, Not Being Depreciated	1,010,419	1,010,419
Capital Assets, Net of Accumulated Depreciation	3,779,546	4,019,465
<b>Total Assets</b>	<b>7,431,186</b>	<b>7,693,706</b>
<b>Deferred Outflows of Resources</b>		
Pensions, Net of Accumulated Amortization	922,006	311,014
Loss on Debt Refunding, Net of Accumulated Amortization	245,932	259,595
<b>Total Deferred Outflows of Resources</b>	<b>1,167,938</b>	
<b>Liabilities</b>		
Accounts Payable	7,928	5,529
Accrued Liabilities	9,764	3,741
Accrued Salaries and Benefits	145,947	137,482
Accrued Interest Payable	25,253	25,861
Noncurrent Liabilities		
Due Within One Year	175,000	298,687
Due in More Than One Year	6,103,829	6,290,821
Net Pension Liability	6,654,262	5,798,506
<b>Total Liabilities</b>	<b>13,121,983</b>	<b>12,560,627</b>
<b>Deferred Inflows of Resources</b>		
Pensions, Net of Accumulated Amortization	119,804	40,926
<b>Net Position</b>		
Net Investment in Capital Assets	(1,242,932)	(1,300,029)
Restricted for Debt Service	508,417	771,643
Restricted for Building Repairs	130,014	130,015
Restricted for Emergencies	125,000	122,000
Unrestricted	(4,163,162)	(4,060,867)
<b>Total Net Position</b>	<b>\$ (4,642,663)</b>	<b>\$ (4,337,238)</b>

<b>Change in Net Position</b>	<b>2015-2016</b>	<b>2014-2015</b>
<b>Revenues</b>		
Per Pupil Revenue	\$ 3,360,361	\$ 3,320,471
Charges for Services	358,515	357,629
Operating Grants and Contributions	16,168	7,946
Additional At-Risk Funding	446	-
District Mill Levy	263,268	274,101
Capital Construction	123,611	83,444
Investment Income	4,495	5,801
Other	9,527	13,921
<b>Total Revenue</b>	<b>4,136,391</b>	<b>4,063,313</b>
<b>Expenses</b>		
Instruction	2,815,590	2,483,106
Support Services	1,139,990	1,031,021
Interest on Long-Term Debt	1,960	7,229
Building Corporation	484,276	490,272
<b>Total Expenses</b>	<b>4,441,816</b>	<b>4,011,628</b>
<b>Increase (decrease) in net position</b>	<b>(305,425)</b>	<b>51,685</b>
<b>Net Position, Beginning</b>	<b>(4,337,238)</b>	<b>(4,388,923)</b>
<b>Net Position, Ending</b>	<b>\$ (4,642,663)</b>	<b>\$ (4,337,238)</b>

## **Financial Analysis of C2E's Funds**

### **Governmental Funds**

The focus of Challenge to Excellence's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing C2E's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of C2E's net resources available to spend at the end of the fiscal year.

As of the end of the current fiscal year, C2E's general fund reported an ending fund balance of \$1,813,898, a decrease of \$39,332 over the year ended June 30, 2015.

### **General Fund Budgetary Highlights**

C2E budgeted for General Fund revenues of \$4,074,619 and expenditures of \$4,311,868 for the year ended June 30, 2016. Actual revenues were \$4,136,305 and actual expenditures were \$4,175,701.

There was a budget amendment during the year, which reflected a decrease overall revenue projections and a slight decrease in overall expenditures, largely due to lower-than-expected enrollment.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

As of June 30, 2016, C2E's investment in capital assets amounts to \$868,149 and includes building improvements and equipment purchased in prior years in support of C2E's educational program. The Building Corporation's investment in capital assets amounts to \$3,921,816 and includes land and the building currently occupied by C2E. Additional information regarding capital assets can be found in Note 4 to the financial statements.

### ***Long-term Debt***

As of June 30, 2016, the Building Corporation had outstanding debt due in the amount of \$6,278,829, \$175,000 of which is due in the next fiscal year. The total debt outstanding is comprised of two obligations.

In July 2011, C2E received \$600,000 in loan proceeds from the Charter Schools Development Corporation to finance kitchen improvements. Interest accrued at 3.5% annually and monthly payments were required through July 2016. During the year ended June 30, 2016, the loan was paid in full.

In August 2007, the Building Corporation received the proceeds of \$7,545,000 revenue refunding bonds issued by the Colorado Educational and Cultural Facilities Authority (CECFA). These proceeds were used to advance refund series 2004 bonds which were originally issued to finance the construction of C2E's educational facilities. Interest accrues at between 3.7% and 3.75% and monthly principal and interest payments are due through June 2037.

Additional information regarding long-term debt can be found in Note 5 to the financial statements.

## **Economic Factors and Next Year's Budget**

The primary factor driving the budget for C2E is student enrollment. Full time enrollment for the 2015-2016 school year was 478.20. The student enrollment projected for the 2016-2017 school year is expected to be 483.84. This factor was considered in preparing C2E's budget for 2016-2017.

## **BASIC FINANCIAL STATEMENTS**

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Investments	\$ 1,970,370	\$ -	\$ 1,970,370
Restricted Cash and Investments	-	663,684	663,684
Accounts Receivable	1,404	-	1,404
Prepaid Expenses	5,763	-	5,763
Capital Assets, Not Being Depreciated	-	1,010,419	1,010,419
Capital Assets, Net of Accumulated Depreciation	<u>868,149</u>	<u>2,911,397</u>	<u>3,779,546</u>
<b>TOTAL ASSETS</b>	<u>2,845,686</u>	<u>4,585,500</u>	<u>7,431,186</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	922,006	-	922,006
Loss on Debt Refunding, Net of Accumulated Amortization	<u>-</u>	<u>245,932</u>	<u>245,932</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>922,006</u>	<u>245,932</u>	<u>1,167,938</u>
<b>LIABILITIES</b>			
Accounts Payable	7,928	-	7,928
Accrued Liabilities	9,764	-	9,764
Accrued Salaries and Benefits	145,947	-	145,947
Accrued Interest Payable	-	25,253	25,253
Noncurrent Liabilities			
Due Within One Year	-	175,000	175,000
Due in More Than One Year	-	6,103,829	6,103,829
Net Pension Liability	<u>6,654,262</u>	<u>-</u>	<u>6,654,262</u>
<b>TOTAL LIABILITIES</b>	<u>6,817,901</u>	<u>6,304,082</u>	<u>13,121,983</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	<u>119,804</u>	<u>-</u>	<u>119,804</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	868,149	(2,111,081)	(1,242,932)
Restricted for Debt Service	-	508,417	508,417
Restricted for Building Repairs	-	130,014	130,014
Restricted for Emergencies	125,000	-	125,000
Unrestricted	<u>(4,163,162)</u>	<u>-</u>	<u>(4,163,162)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (3,170,013)</u>	<u>\$ (1,472,650)</u>	<u>\$ (4,642,663)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
Instruction	\$ 2,815,590	\$ 254,623	\$ 16,168
Supporting Services	1,139,990	103,892	-
Interest on Long-Term Debt	1,960	-	-
Total Governmental Activities	<u>3,957,540</u>	<u>358,515</u>	<u>16,168</u>
<b>Business-Type Activities</b>			
Building Corporation	<u>484,276</u>	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 4,441,816</u>	<u>\$ 358,515</u>	<u>\$ 16,168</u>

GENERAL REVENUES

Per Pupil Revenue  
 Additional At-Risk Funding  
 District Mill Levy  
 Capital Construction  
 Investment Income  
 Other

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSES) REVENUES AND  
CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (2,544,799)	\$ -	\$ (2,544,799)
(1,036,098)	-	(1,036,098)
<u>(1,960)</u>	<u>-</u>	<u>(1,960)</u>
<u>(3,582,857)</u>	<u>-</u>	<u>(3,582,857)</u>
<u>-</u>	<u>(484,276)</u>	<u>(484,276)</u>
<u>(3,582,857)</u>	<u>(484,276)</u>	<u>(4,067,133)</u>
3,360,361	-	3,360,361
446	-	446
263,268	-	263,268
123,611	-	123,611
4,409	86	4,495
9,527	-	9,527
<u>(483,645)</u>	<u>483,645</u>	<u>-</u>
<u>3,277,977</u>	<u>483,731</u>	<u>3,761,708</u>
(304,880)	(545)	(305,425)
<u>(2,865,133)</u>	<u>(1,472,105)</u>	<u>(4,337,238)</u>
<u>\$ (3,170,013)</u>	<u>\$ (1,472,650)</u>	<u>\$ (4,642,663)</u>

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2016

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,970,370
Accounts Receivable	1,404
Prepaid Expenditures	5,763
<b>TOTAL ASSETS</b>	<b>\$ 1,977,537</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 7,928
Accrued Liabilities	9,764
Accrued Salaries and Benefits	145,947
<b>TOTAL LIABILITIES</b>	<b>163,639</b>
<b>FUND BALANCE</b>	
Nonspendable Prepaid Expenditures	5,763
Restricted for Emergencies	125,000
Unrestricted, Unassigned	1,683,135
<b>TOTAL FUND BALANCE</b>	<b>1,813,898</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,977,537</b>

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

Total Fund Balance of the Governmental Fund	\$ 1,813,898
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	868,149
Long-term liabilities and related items, including net pension liability (\$6,654,262), pension-related deferred outflows of resources \$922,006, and pension-related deferred inflows of resources (\$119,804), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(5,852,060)
Total Net Position of Governmental Activities	<b>\$ (3,170,013)</b>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2016

	<u>GENERAL</u>
REVENUES	
Local Sources	
Per Pupil Revenue	\$ 3,360,361
District Mill Levy	263,268
Student Fees and Extended Day Programs	358,515
Investment Income	4,409
Other	9,527
State Sources	
Additional At-Risk Funding	446
Capital Construction	123,611
Grants	16,168
	4,136,305
 TOTAL REVENUES	 4,136,305
 EXPENDITURES	
Current	
Instruction	2,566,385
Supporting Services	1,467,812
Debt Service	
Principal	139,544
Interest	1,960
	4,175,701
 TOTAL EXPENDITURES	 4,175,701
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (39,396)
 OTHER FINANCING SOURCES	
Transfers In	64
	64
 NET CHANGE IN FUND BALANCE	 (39,332)
 FUND BALANCE, Beginning	 1,853,230
 FUND BALANCE, Ending	 \$ 1,813,898

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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

Net Change in Fund Balance of the Governmental Fund	\$ (39,332)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents depreciation expense in the current year.	(81,450)
Repayments of debt principal are expenditures in the governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	139,544
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$855,756), pension-related deferred outflows of resources \$610,992, and pension-related deferred inflows of resources (\$78,878) in the current year.	<u>(323,642)</u>
Change in Net Position of Governmental Activities	<u>\$ (304,880)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
 June 30, 2016

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ <u>663,684</u>
TOTAL CURRENT ASSETS	<u>663,684</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,010,419
Capital Assets, Net of Accumulated Depreciation	<u>2,911,397</u>
TOTAL NONCURRENT ASSETS	<u>3,921,816</u>
TOTAL ASSETS	<u>4,585,500</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>245,932</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	25,253
Loan Payable, Current Portion	<u>175,000</u>
TOTAL CURRENT LIABILITIES	200,253
NONCURRENT LIABILITIES	
Loan Payable	<u>6,103,829</u>
TOTAL LIABILITIES	<u>6,304,082</u>
NET POSITION	
Net Investment in Capital Assets	(2,111,081)
Restricted for Debt Service	508,417
Restricted for Building Repairs	<u>130,014</u>
TOTAL NET POSITION	<u>\$ (1,472,650)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
 Year Ended June 30, 2016

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Revenue	\$ <u>483,709</u>
TOTAL OPERATING REVENUES	<u>483,709</u>
OPERATING EXPENSES	
Depreciation	158,469
Debt Service	
Interest and Fiscal Charges	<u>325,807</u>
TOTAL OPERATING EXPENSES	<u>484,276</u>
NET OPERATING INCOME (LOSS)	(567)
NONOPERATING REVENUES	
Investment Income	<u>86</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(481)
Transfers Out	<u>(64)</u>
CHANGE IN NET POSITION	(545)
NET POSITION, Beginning	<u>(1,472,105)</u>
NET POSITION, Ending	<u>\$ (1,472,650)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2016

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 483,709
Loan Interest and Fees Paid	(313,887)
Loan Principal Paid	<u>(170,000)</u>
Net Cash Provided (Used) by Operating Activities	(178)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments to Other Funds	(64)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>86</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(156)
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>663,840</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 663,684</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (567)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	158,469
Amortization of Premium	(1,135)
Amortization of Loss on Debt Refunding	13,663
Changes in Assets and Liabilities	
Accrued Interest Payable	(608)
Loan Payable	<u>(170,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (178)</u>

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Challenge to Excellence Charter School (the “School”) was organized in 2002 pursuant to the Colorado Charter Schools Act to form and operate a charter school within Douglas County School District (the “District”). The School is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. Following is a summary of the School’s more significant policies.

**Reporting Entity**

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

The School includes the C2E Building Corporation (the “Corporation”) within its reporting entity. The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for, and to make same available for use by, the School, and to otherwise provide facilities, equipment and other physical plant and related support to the School. The Corporation is blended into the School’s financial statements as an enterprise fund. Separate audited financial statements are not available for the Corporation.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Government-wide and Fund Financial Statements (Continued)**

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

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

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

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

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

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

The School reports the following major funds:

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

*Building Corporation* - This fund is used to account for the financial activities of the Corporation, primarily related to capital assets and the related debt service.

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

*Cash and Investments* - Cash equivalents include investments with original maturities of three months or less. Investments are reported at fair value. Investments in money market funds and external investment pools are reported at the net asset value per share, which is measured using amortized cost.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	20 - 30 years
Equipment	5 - 15 years

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

*Compensated Absences* - Employees are allowed to use sick and personal leave, which is not available to carry over from year to year. Certified and classified staff are reimbursed \$100 and \$50 per day, respectively, for unused sick and personal leave at the end of each fiscal year. Therefore, no liability is reported in the financial statements for these compensated absences.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts, and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*Pensions* - The School participates in 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). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. 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.

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

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

**Risk Management**

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

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Accountability**

At June 30, 2016, the Corporation had a negative net position of \$1,472,650. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

A summary of cash and investments at June 30, 2016, follows:

Deposits	\$ 665,160
Investments	<u>1,968,894</u>
Total	<u>\$ 2,634,054</u>

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3: CASH AND INVESTMENTS (Continued)**

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

Cash and Investments	\$ 1,970,370
Restricted Cash and Investments	<u>663,684</u>
Total	<u><b>\$ 2,634,054</b></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2016, the School had bank deposits of \$428,710 collateralized with securities held by the financial institution's agent but not in the School's name.

**Investments**

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

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

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

*Credit Risk* - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations.

At June 30, 2016, the Corporation had \$663,684 invested in the Federated Treasury Obligations Fund, a money market fund rated AAAM by Standard and Poor's. The Fund invests in short-term U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

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

*Local Government Investment Pool* - At June 30, 2016, the School had \$1,305,210 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment trust established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**Restricted Cash and Investments**

At June 30, 2016, cash and investments of \$663,684 have been restricted by the Corporation for debt service and building repairs.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, is summarized below.

	<u>Balances</u> 6/30/15	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/16
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Building Improvements	\$ 1,027,879	\$ -	\$ -	\$ 1,027,879
Equipment	190,757	-	-	190,757
Total Capital Assets, Being Depreciated	<u>1,218,636</u>	<u>-</u>	<u>-</u>	<u>1,218,636</u>
Less Accumulated Depreciation				
Building Improvements	(166,251)	(57,850)	-	(224,101)
Equipment	(102,786)	(23,600)	-	(126,386)
Total Accumulated Depreciation	<u>(269,037)</u>	<u>(81,450)</u>	<u>-</u>	<u>(350,487)</u>
Governmental Activities Capital Assets, Net	<u>\$ 949,599</u>	<u>\$ (81,450)</u>	<u>\$ -</u>	<u>\$ 868,149</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 4: CAPITAL ASSETS (Continued)**

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>6/30/16</u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 1,010,419	\$ -	\$ -	\$ 1,010,419
Capital Assets, Being Depreciated				
Buildings	4,754,070	-	-	4,754,070
Less Accumulated Depreciation				
Buildings	<u>(1,684,204)</u>	<u>(158,469)</u>	<u>-</u>	<u>(1,842,673)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,069,866</u>	<u>(158,469)</u>	<u>-</u>	<u>2,911,397</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,080,285</u>	<u>\$ (158,469)</u>	<u>\$ -</u>	<u>\$ 3,921,816</u>

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2016:

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	Balances <u>6/30/16</u>	Due Within <u>One Year</u>
<b>Governmental Activities</b>					
Loan	<u>\$ 139,544</u>	<u>\$ -</u>	<u>\$ 139,544</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Business-Type Activities</b>					
Building Loan	\$ 6,425,000	\$ -	\$ 170,000	\$ 6,255,000	\$ 175,000
Loan Premium	<u>24,964</u>	<u>-</u>	<u>1,135</u>	<u>23,829</u>	<u>-</u>
Total	<u>\$ 6,449,964</u>	<u>\$ -</u>	<u>\$ 171,135</u>	<u>\$ 6,278,829</u>	<u>\$ 175,000</u>

**Governmental Activities**

On July 25, 2011, the School entered into a loan agreement with the Charter Schools Development Corporation in the amount of \$600,000. Proceeds of the loan were used to construct a kitchen and purchase kitchen equipment. Monthly payments of \$10,921 were required under the loan agreement, through July 31, 2016. Interest accrued at 3.5% per annum. During the year ended June 30, 2016, the loan was paid in full.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 5: LONG-TERM DEBT (Continued)**

**Business-Type Activities**

On August 1, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$7,545,000 Charter School Revenue Refunding Bonds, Series 2007, to advance refund CECFA's outstanding Series 2004 Bonds. Proceeds of the Series 2004 Bonds were used by the Corporation to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the Corporation for use of the building. The Corporation is required to make equal loan payments to the Trustee for payment of the bonds. Monthly principal and interest payments are due under the agreements, with interest accruing at rates ranging from 3.7% to 3.75%. Bond interest payments are due semi-annually on June 1 and December 1. Principal payments are due annually on June 1, through 2037. Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 175,000	\$ 306,748	\$ 481,748
2018	185,000	299,310	484,310
2019	195,000	291,262	486,262
2020	200,000	282,975	482,975
2021	210,000	274,475	484,475
2022 - 2026	1,220,000	1,206,750	2,426,750
2027 - 2031	1,575,000	867,500	2,442,500
2032 - 2036	2,025,000	431,250	2,456,250
2037	<u>470,000</u>	<u>23,500</u>	<u>493,500</u>
Total	<u>\$ 6,255,000</u>	<u>\$ 3,983,770</u>	<u>\$ 10,238,770</u>

**NOTE 6: INTERFUND TRANSACTIONS**

During the year ended June 30, 2016, the Corporation distributed \$64 in excess investment earnings to the General Fund.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**General Information**

*Plan Description* - 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). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)****General Information** (Continued)

*Benefits Provided* - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

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

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The School's contributions to the SDTF for the year ended June 30, 2016, were \$367,709, equal to the required contributions.

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

At June 30, 2016, the School reported a net pension liability of \$6,654,262, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0435081376%, which was an increase of 0.0007253396% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$673,298. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 87,871	\$ 273
Changes of assumptions and other inputs	-	94,036
Net difference between projected and actual earnings on plan investments	564,102	-
Changes in proportion	71,300	25,495
Contributions subsequent to the measurement date	<u>198,733</u>	<u>-</u>
Total	<b><u>\$ 922,006</u></b>	<b><u>\$ 119,804</u></b>

School contributions subsequent to the measurement date of \$198,733 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 158,874
2018	163,422
2019	165,150
2020	<u>116,023</u>
Total	<b><u>\$ 603,469</u></b>

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

The actuarial assumptions used in the December 31, 2013, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u><b>100.00%</b></u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently requires annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate (7.5%)	1% Increase <u>(8.5%)</u>
Proportionate share of the net pension liability	<u>\$ 8,625,869</u>	<u>\$ 6,654,262</u>	<u>\$ 5,014,254</u>

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

**NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described previously.

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$20,009, \$18,533 and \$17,792, respectively, equal to the required amounts for each year.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2016, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. As required by the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2016, the emergency reserve was reported as restricted fund balance in the General Fund, in the amount of \$125,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0435081376%	0.0427827980%	0.0432178520%
School's Proportionate Share of the Net Pension Liability	\$ 6,654,262	\$ 5,798,506	\$ 5,512,425
School's Covered-Employee Payroll	\$ 1,896,362	\$ 1,792,291	\$ 1,742,249
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 347,700	\$ 306,721	\$ 279,088
Contributions in Relation to the Statutorily Required Contribution	<u>(347,700)</u>	<u>(306,721)</u>	<u>(279,088)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 1,961,651	\$ 1,817,034	\$ 1,745,725
Contributions as a Percentage of Covered-Employee Payroll	17.72%	16.88%	15.99%

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

See the accompanying Independent Auditors' Report.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
<b>Local Sources</b>				
Per Pupil Revenue	\$ 3,570,716	\$ 3,321,381	\$ 3,360,361	\$ 38,980
District Mill Levy	280,906	267,638	263,268	(4,370)
Student Fees and Extended Day Programs	362,000	362,000	358,515	(3,485)
Investment Income	-	-	4,409	4,409
Other	4,140	4,140	9,527	5,387
<b>Total Local Sources</b>	<u>4,217,762</u>	<u>3,955,159</u>	<u>3,996,080</u>	<u>40,921</u>
<b>State Sources</b>				
Additional At-Risk Funding	-	-	446	446
Capital Construction	123,710	119,460	123,611	4,151
Grants	-	-	16,168	16,168
<b>Total State Sources</b>	<u>123,710</u>	<u>119,460</u>	<u>140,225</u>	<u>20,765</u>
<b>TOTAL REVENUES</b>	<u>4,341,472</u>	<u>4,074,619</u>	<u>4,136,305</u>	<u>61,686</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Salaries	2,056,722	2,143,271	2,111,985	31,286
Benefits	778,044	806,644	669,276	137,368
Purchased Professional Services	108,680	62,152	80,990	(18,838)
Purchased Property Services	613,419	613,419	590,700	22,719
Other Purchased Services	263,625	263,625	290,705	(27,080)
Supplies and Materials	184,500	184,500	190,071	(5,571)
Property	77,250	95,000	92,931	2,069
Other	12,200	12,200	7,539	4,661
<b>Debt Service</b>				
Principal	122,000	122,000	139,544	(17,544)
Interest	9,057	9,057	1,960	7,097
Contingency	110,899	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>4,336,396</u>	<u>4,311,868</u>	<u>4,175,701</u>	<u>136,167</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>5,076</u>	<u>(237,249)</u>	<u>(39,396)</u>	<u>197,853</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers In	-	-	64	64
<b>NET CHANGE IN FUND BALANCE</b>	<u>5,076</u>	<u>(237,249)</u>	<u>(39,332)</u>	<u>197,917</u>
<b>FUND BALANCE, Beginning</b>	<u>1,637,543</u>	<u>1,853,230</u>	<u>1,853,230</u>	<u>-</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 1,642,619</u>	<u>\$ 1,615,981</u>	<u>\$ 1,813,898</u>	<u>\$ 197,917</u>

See the accompanying Independent Auditors' Report.

**NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS**

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

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

A budget is adopted for the School on a basis consistent with generally accepted accounting principles.

School management submits to the Governing Council a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Governing Council.

All appropriations lapse at fiscal year end.