



Pinnacle Charter School, Inc.

**Financial Statements and Supplementary
Information**

For the Year Ended June 30, 2016

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**Pinnacle Charter School, Inc.
Roster of School Officials
June 30, 2016**

BOARD OF DIRECTORS

President	Bee Waters
Vice President	Joyce Thomas
Secretary	Clarissa Burkland
Member	Elizabeth Martinez
Member	Tracy Mealer-Hernandez

SCHOOL MANAGEMENT

Dr. Brian Recht, Executive Director
Carol Meininger, Chief Financial Officer



Independent Auditor's Report

Board of Directors
Pinnacle Charter School, Inc.
Federal Heights, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pinnacle Charter School, Inc. (the "School"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit 19 percent of the revenues and 58 percent of the expenditures reported in the Food Service Fund (a major special revenue fund). Those revenues and expenditures were audited by other auditors, whose reports have been furnished to us, and insofar as it relates to the amounts included in the Food Service Fund, are based solely on the reports of others. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the other entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal controls over financial reporting or reportable noncompliance associated with the other entities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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, based on our audit and the reports of the other auditors, the basic 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 Pinnacle Charter School, Inc., as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, budgetary comparison information on pages 35 and 36, Schedule of the School's Proportionate Share of the Net Pension Liability on page 37, and Schedule of School Contributions on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The budgetary comparison information and schedule of changes in assets and liabilities – student activities fund on pages 39 through 42, and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance.

Anton Collins Mitchell LLP

Greeley, Colorado
October 20, 2016

**Pinnacle Charter School
Management's Discussion and Analysis
As of and for the fiscal year ended June 30, 2016**

Financial Highlights

- The General Fund has a net fund balance of \$7.5M versus \$6.9M from the close of 2015 fiscal year.
- Beginning 7/1/2015 the Pinnacle Charter School ("the School") took over the position of School Food Authority (SFA) from its authorizer the Colorado Charter School Institute (CSI). This places the School in the position of overseeing and recording the accounting for the food service programs of 11 other CSI schools. Due to this change, the Food Service fund moved from reporting in the General Fund in 2014-2015 to reporting as a Special Revenue Fund in 2015-2016.

Financial Statement Overview

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

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 on all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of liabilities with the difference between the categories reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued salaries).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by state funding from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include instruction, support services, and the Building and Property Corporations. The School does not have any business-type activities.

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 the School can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 financial resources and fund balances. Such information may be useful in evaluating near-term financing requirements.

Proprietary funds. The School maintains two individual proprietary funds which are internal service funds.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The School is responsible for ensuring that the assets reported in this fund are used only for intended purposes and used by those to whom the assets belong. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School's own programs.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required and other supplementary information concerning the School's governmental, enterprise, and fiduciary funds.

Government-wide Financial Analysis

Starting in the 2014-2015 school year, all governmental entities participating in state mandated retirement programs are required to include the unfunded future liability of these programs in their financial statements. The Pinnacle participates in the Colorado Public Employee's Retirement Association (PERA) program. This retirement program is managed and invested solely by PERA, with no input or control from the Pinnacle or any other government entity that it supports. The Pinnacle submits funding to PERA on a monthly basis for each of its employees based on rates set by Colorado statute for PERA. The employer contribution rate for 2015-2016 was 18.80% of employee salaries, while the employee rate was 8%. The rate for 2016-2017 is 19.40% with the employee contribution remaining at 8%. The PERA retirement program is in place of Social Security which, in comparison, collects 6.2% of salaries from both the employer and employee. Also, in comparison to non-PERA entities, unfunded Social Security liability is *not* included in the employer's balance sheet. The condensed statement below is inclusive of the Pinnacle proportionate share of the net pension liability in the amount of \$31M.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, governmental activities assets and deferred outflows of resources exceeded liabilities by \$7.7M (excluding the PERA liability and related accounts). The government-wide financial statements include non-cash expenditures such as depreciation and amortization, and the recording of assets that are not included in the government fund view. Adjusting for these non-cash entries, there was a final increase to net position of about \$679K.

Condensed Statement of Net Position

	2016	2015
Current and other assets	\$11,377,625	\$10,578,965
Capital assets (net)	24,903,440	25,405,456
Total assets	36,281,065	35,306,780
Deferred Inflows of Resources	5,872,037	3,231,224
Current liabilities	1,046,727	940,037
Noncurrent liabilities	59,838,651	55,731,525
Total liabilities	60,885,378	56,671,562
Net investment in capital assets	(2,602,087)	(2,813,664)
Restricted for		
Debt service	2,434,878	2,421,740
Emergencies	506,000	504,600
Building repair & replacement	200,385	200,233
Unrestricted	(19,715,447)	(17,770,797)
Total net position	(\$19,176,271)	(\$17,457,888)

Condensed Statement of Activities

Total net position decreased by \$1,718K. The causes of this increase are shown in the following schedule:

	2016	2015
Revenue		
Per pupil revenue	\$14,780,590	\$14,806,636
Earnings on investments	10,443	7,501
Charges for services	1,173,914	690,197
Operating grants and contributions	4,204,484	2,146,846
Capital grants and contributions	-	356,446
Other	101,518	106,506
Total Revenues	20,270,939	18,114,132
Instructional	10,233,673	8,899,094
Supporting services	7,847,999	7,658,600
Interest on long-term debt	1,400,773	1,424,467
Food Services	2,506,877	-
Total Expenses	21,989,322	17,982,161
Change in net position	(1,718,383)	131,971
Net position, July 1	(17,457,888)	(17,589,859)
Net position, June 30	(\$19,176,271)	(\$17,457,888)

Financial Analysis of the Governmental Funds

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year. The general fund is the chief operating fund of the School.

General Fund Budgetary Highlights

The School approves a budget in May based on enrollment projections for the following school year. After enrollment stabilizes in October, adjustments are made to the budget and finalized by January.

The final general fund variance to budget was \$672K (excluding reserves) better than planned. \$95K was from reductions and refunds of administrative fees from CSI and CDE, \$60K from at-risk and ecare revenue from the state, \$50K from utilities and fuel, \$65K in local e-rate grants, legal and professional fees, \$230K in savings from staffing turnover and changes in benefits, and the remainder due to various savings across departments.

Capital Asset and Debt Administration

The Pinnacle Charter School's investment in capital assets for June 30, 2016 amounts to \$24.9M (net of accumulated depreciation). This investment in capital assets includes land, buildings, service vehicles, buses, playground equipment, and food service equipment.

	2016	2015
Capital Assets:		
Land	\$2,625,000	\$2,625,000
Construction in progress	-	203,600
Buildings and improvements	21,933,782	22,253,562
Vehicles and equipment	344,658	323,294
Total Capital Assets	<u>\$24,903,440</u>	<u>\$25,405,456</u>

As of June 30, 2016 the Pinnacle Building Corporation had outstanding long term debt of \$17.1M in Charter School Revenue Refunding and Improvement Bonds through the Colorado Educational and Facilities Authority ("CECFA").

As of June 30, 2016 The Pinnacle Property Corporation had outstanding debt of \$11.4M in Charter School Revenue Refunding and Improvement Bonds through CECFA for the remodel and construction of the High School facility.

Economic Factors and Next Year's Budget

Enrollment expectations for the 2016-2017 school year are 2,005 students. This is 50 students less than prior year as the Pinnacle moves class sizes back to pre-recession levels. State budgets for PPR are forecasted to increase slightly in 2016-2017. The Pinnacle's Executive Director of eleven years retired at the end of the school year and the board hired a new Superintendent in May of 2016.

Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

The Pinnacle Charter School
Business Office
1001 W. 84th Avenue
Federal Heights, CO 80260

BASIC FINANCIAL STATEMENTS

Pinnacle Charter School, Inc.
Statement of Net Position
June 30, 2016

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 7,903,856
Restricted cash and investments	2,743,808
Accounts receivable - Charter School Institute	525,855
Other receivables	173,473
Inventories	4,683
Prepaid items	25,950
Capital assets, not depreciated	2,625,000
Capital assets, depreciated, net	22,278,440
<u>Total assets</u>	36,281,065
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred loss on refunding	1,007,182
Deferred outflows of resources relating to pensions	4,864,855
<u>Total deferred outflows of resources</u>	5,872,037
<u>LIABILITIES</u>	
Accounts payable	108,466
Accrued salaries and benefits	826,146
Accrued interest payable	108,545
Unearned revenue	3,570
Noncurrent liabilities:	
Due within one year	765,000
Due in more than one year	27,747,709
Net pension liability	31,325,942
<u>Total liabilities</u>	60,885,378
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows of resources relating to pensions	443,995
<u>Total deferred inflows of resources</u>	443,995
<u>NET POSITION</u>	
Net investment in capital assets	(2,602,087)
Restricted for:	
Emergencies	506,000
Debt service	2,434,878
Repair and replacement	200,385
Unrestricted	(19,715,447)
<u>Total net position</u>	\$ (19,176,271)

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

Pinnacle Charter School, Inc.
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues				Net Revenue (Expense) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<u>Governmental activities</u>					
Instruction	\$ 10,233,673	\$ 252,284	\$ 1,003,351	\$ -	\$ (8,978,038)
Supporting services	7,847,999	348,424	1,383,319	-	(6,116,256)
Interest on long-term debt	1,400,773	-	-	-	(1,400,773)
<u>Food Services</u>	<u>2,506,877</u>	<u>573,206</u>	<u>1,817,814</u>	<u>-</u>	<u>(115,857)</u>
<u>activities/primary government</u>	<u>\$ 21,989,322</u>	<u>\$ 1,173,914</u>	<u>\$ 4,204,484</u>	<u>\$ -</u>	<u>(16,610,924)</u>
<u>General revenues</u>					
Per pupil revenue					14,780,590
Earnings on investments					10,433
Other					101,518
Total general revenues					14,892,541
Change in net position					(1,718,383)
Net position at beginning of year					(17,457,888)
Net position at end of year					<u>\$ (19,176,271)</u>

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

Pinnacle Charter School, Inc.
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Food Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 7,901,572	\$ 2,284	\$ 7,903,856
Accounts receivable - Charter School Institute	525,855	-	525,855
Other Receivables	-	173,473	173,473
Inventory	-	4,683	4,683
Prepaid items	25,950	-	25,950
Due from other funds	11,658	-	11,658
	<u>\$ 8,465,035</u>	<u>\$ 180,440</u>	<u>\$ 8,645,475</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>Liabilities</u>			
Accounts payable	\$ 6,395	\$ 102,071	\$ 108,466
Accrued salaries and benefits	826,146	-	826,146
Unearned revenue	3,570	-	3,570
Due to other funds	88,195	11,658	99,853
	<u>924,306</u>	<u>113,729</u>	<u>1,038,035</u>
<u>Fund balance</u>			
Nonspendable for inventory	-	4,683	4,683
Nonspendable for prepaid items	25,950	-	25,950
Restricted for emergencies	506,000	-	506,000
Assigned for food service operations	-	62,028	62,028
Assigned for grants	2,940	-	2,940
Unassigned	7,005,839	-	7,005,839
	<u>7,540,729</u>	<u>66,711</u>	<u>7,607,440</u>
<u>Total liabilities</u>	<u>924,306</u>	<u>113,729</u>	<u>1,038,035</u>
<u>Total fund balance</u>	<u>7,540,729</u>	<u>66,711</u>	<u>7,607,440</u>
<u>Total liabilities and fund balance</u>	<u>\$ 8,465,035</u>	<u>\$ 180,440</u>	<u>\$ 8,645,475</u>

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

Pinnacle Charter School, Inc.
Reconciliation of the Governmental Funds Balance Sheet
with the Government-wide Statement of Net Position
June 30, 2016

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

Total fund balance - governmental fund		\$ 7,607,440
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Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental fund financial statements.

Cost of capital assets	\$ 3,974,683	
Accumulated depreciation	<u>(1,909,140)</u>	2,065,543

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore

Deferred outflows of resources	\$ 4,864,855	
Deferred inflows of resources	<u>(443,995)</u>	4,420,860

Long-term liabilities in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements. This is the amount of the net pension liability. (31,325,942)

Net position of internal service funds		<u>(1,944,172)</u>
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<u>Total net position - governmental activities</u>		<u><u>\$ (19,176,271)</u></u>
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The accompanying notes are an integral part of these financial statements.

Pinnacle Charter School, Inc.
Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Food Service Fund	Total Governmental Funds
<u>Revenues</u>			
Local sources	\$ 15,651,408	\$ 573,206	\$ 16,224,614
State sources	1,216,708	45,332	1,262,040
Federal sources	1,003,351	1,772,482	2,775,833
<u>Total revenues</u>	17,871,467	2,391,020	20,262,487
<u>Expenditures</u>			
Current:			
Instruction	8,623,849	-	8,623,849
Supporting services	8,541,116	-	8,541,116
Food services	-	2,418,842	2,418,842
<u>Total expenditures</u>	17,164,965	2,418,842	19,583,807
<u>Excess of revenues over expenditures</u>	706,502	(27,822)	678,680
<u>Fund balance at beginning of year</u>	6,928,760	-	6,928,760
Restatement (see Note 3)	(94,533)	94,533	-
<u>Fund balance at end of year</u>	\$ 7,540,729	\$ 66,711	\$ 7,607,440

Reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balance with the government-wide statement of activities:

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

Net change in fund balance - governmental funds	\$ 678,680
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For governmental activities, capital outlays to purchase or build capital assets are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense. This is the net change of capital outlay and depreciation expense during the current period.

Depreciation expense	\$ (94,644)	
Capital outlay	113,235	18,591

Changes in the School's net pension asset, deferred outflows of resources, and deferred inflows of resources related to the cost-sharing defined benefit plan for the current year are not reported in the governmental funds but are reported in the statement of activities.	(2,621,930)
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Change in net position of internal service funds	206,276
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Change in net position of governmental activities	\$ (1,718,383)
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The accompanying notes are an integral part of these financial statements.

Pinnacle Charter School, Inc.
Statement of Net Position
Proprietary Funds
June 30, 2016

	Internal Service Funds		
	Building Corporation	Property Corporation	Total Internal Service Funds (Governmental Activities)
<u>ASSETS</u>			
<u>Current assets</u>			
Due from other funds	\$ -	\$ 88,195	\$ 88,195
<u>Total current assets</u>	-	88,195	88,195
<u>Noncurrent assets</u>			
Restricted cash and investments	1,492,263	1,251,545	2,743,808
Capital assets, net	13,163,134	9,674,763	22,837,897
<u>Total noncurrent assets</u>	14,655,397	10,926,308	25,581,705
<u>Total assets</u>	14,655,397	11,014,503	25,669,900
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
<u>Deferred outflows of resources</u>			
Deferred loss on refunding	1,007,182	-	1,007,182
<u>Total deferred outflows of resources</u>	1,007,182	-	1,007,182
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Accrued interest payable	59,920	48,625	108,545
Loans payable, current	520,000	245,000	765,000
<u>Total current liabilities</u>	579,920	293,625	873,545
<u>Noncurrent liabilities</u>			
Loans payable	16,571,182	11,176,527	27,747,709
<u>Total liabilities</u>	17,151,102	11,470,152	28,621,254
<u>NET POSITION</u>			
<u>Net position</u>			
Net investment in capital assets	(2,920,866)	(1,746,764)	(4,667,630)
Restricted for debt service	1,432,343	1,002,535	2,434,878
Restricted for repair and replacement	-	200,385	200,385
Unrestricted	-	88,195	88,195
<u>Total net position (deficit)</u>	<u>\$ (1,488,523)</u>	<u>\$ (455,649)</u>	<u>\$ (1,944,172)</u>

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

Pinnacle Charter School, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2016

	Internal Service Funds		
	Building Corporation	Property Corporation	Total Internal Service Funds (Governmental Activities)
<u>Operating revenues</u>			
Charges for services:			
Lease revenue	\$ 1,261,574	\$ 857,630	\$ 2,119,204
<u>Total operating revenues</u>	1,261,574	857,630	2,119,204
<u>Operating expenses</u>			
Depreciation	313,959	206,648	520,607
Amortization	8,213	18,194	26,407
<u>Total operating expenses</u>	322,172	224,842	547,014
<u>Net operating income</u>	939,402	632,788	1,572,190
<u>Nonoperating revenues (expenses)</u>			
Earnings on investments	4,969	3,483	8,452
Interest and finance charges	(756,682)	(617,684)	(1,374,366)
<u>Total nonoperating revenues (expenses)</u>	(751,713)	(614,201)	(1,365,914)
<u>Change in net position</u>	187,689	18,587	206,276
<u>Net position (deficit), beginning of the year</u>	(1,676,212)	(474,236)	(2,150,448)
<u>Net position (deficit), end of the year</u>	\$ (1,488,523)	\$ (455,649)	\$ (1,944,172)

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

Pinnacle Charter School, Inc.
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Internal Service Funds		
	Building Corporation	Property Corporation	Total Internal Service Funds (Governmental Activities)
<u>Cash flows from operating activities</u>			
Lease payments received from other funds	\$ 1,261,574	\$ 857,630	\$ 2,119,204
<u>Net cash flows from operating activities</u>	<u>1,261,574</u>	<u>857,630</u>	<u>2,119,204</u>
<u>Cash flows from noncapital financing activities</u>			
Cash received from (paid to) other funds	(3,185)	-	(3,185)
<u>Net cash flows from noncapital financing activities</u>	<u>(3,185)</u>	<u>-</u>	<u>(3,185)</u>
<u>Cash flows from capital and related financing activities</u>			
Principal payments of long-term debt	(505,000)	(235,000)	(740,000)
Interest payments of long-term debt	(757,944)	(618,577)	(1,376,521)
Change in restricted cash and cash equivalents	(414)	(7,536)	(7,950)
<u>Net cash flows from capital and related financing activities</u>	<u>(1,263,358)</u>	<u>(861,113)</u>	<u>(2,124,471)</u>
<u>Cash flows from investing activities</u>			
Investment income received	4,969	3,483	8,452
<u>Net cash flows from investing activities</u>	<u>4,969</u>	<u>3,483</u>	<u>8,452</u>
<u>Net change in cash and cash equivalents</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents, beginning of year</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>Reconciliation of operating income to net cash flows from operating activities:</u>			
Operating income	\$ 939,402	\$ 632,788	1,572,190
Adjustments to reconcile operating income to net cash flows from operating activities			
Depreciation	313,959	206,648	520,607
Amortization	8,213	18,194	26,407
<u>Net cash flows from operating activities</u>	<u>\$ 1,261,574</u>	<u>\$ 857,630</u>	<u>\$ 2,119,204</u>

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

Pinnacle Charter School, Inc.
Statement of Fiduciary Net Position
Student Activity Fund
June 30, 2016

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 162,351</u>
<u>Total assets</u>	<u><u>\$ 162,351</u></u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 162,351</u>
<u>Total liabilities</u>	<u><u>\$ 162,351</u></u>

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

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The Pinnacle Charter School, Inc. (the "School") was established pursuant to the Colorado Charter Schools Act, to form and operate a charter school within the Adams County School District No. 12. The School began operations in 1994. In 2006, the School entered into a contract with the Colorado Charter School Institute (the "Institute") to authorize the School's charter. The current contract expires on June 30, 2016.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the School's significant accounting policies consistently applied in the preparation of these financial statements follows.

Reporting Entity

As defined by GAAP established by the GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's governing board, and either, a) the ability to impose its will by the primary government, or b) there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or
- 2) Fiscal dependency on the primary government and there is a potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The School is a legally separate entity as defined by the GASB. The School includes the Pinnacle Charter School Building Corporation (the "Building Corporation") and the Pinnacle Charter School Property Corporation (the "Property Corporation") within its reporting entity. The Building Corporation and Property Corporation were formed exclusively for the purpose of holding title to real and/or personal property and provides facilities and equipment for use by the School. These entities are blended into the School's financial statements as internal service funds because they provide services exclusively to the School, receive all of their funding from the School, and the School appoints their board members. Separate audited financial statements are not available for these entities.

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 of the nonfiduciary 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 intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support and are operate in a manner similar to private business enterprises. The School does not report any business-type activities.

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 student or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School, or to other governments, on a cost reimbursement basis. The internal service funds of the School accounts for the activities of the Building Corporation and Property Corporation.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the School's government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities. In the fund financial statements, the School reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the School. It accounts for all of the financial resources of the School, except those required to be accounted for in another fund.

Food Service Fund – The Food Service Fund is a special revenue fund used to record financial transactions related to food service operations.

Proprietary Funds

The School reports the following internal service funds:

Building Corporation – This fund accounts for specific revenue sources and the related expenditures of the Building Corporation that are restricted to capital purposes and debt service.

Property Corporation – This fund accounts for specific revenue sources and the related expenditures of the Property Corporation that are restricted to capital purposes and debt service.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School has one agency fund, the Student Activities Fund. This fund accounts for various student activities. The School holds all resources in a purely custodial capacity.

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 are the proprietary and fiduciary 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.

A balance sheet and statement of revenues, expenditures and changes in fund balance are presented for each governmental fund. 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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and earnings on investments 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 available only when the cash is received by the School. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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 proprietary 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. The School has two internal service funds.

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources

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

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amounts were determined to be uncollectible at June 30, 2016.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories – Inventories are stated at average cost. Inventories are recorded as an asset when individual items are purchased and as an expense when consumed.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements and the proprietary funds in the fund financial statements. Capital assets are defined by the School 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 valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value at the date of donation.

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements and the proprietary funds in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 Years
Vehicles and 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 months. The accrued salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

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

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (Continued)

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

Long-Term Debt – In the government-wide financial statements and the proprietary funds in the fund financial statements, long-term debt is reported as a liability. Debt issuance costs are expensed when incurred. In the fund financial statements, governmental funds recognize the amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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 months. The accrued salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Compensated Absences – The School's policy allows full-time, certified employees to accumulate vacation, sick and personal leave during the year. Instructional employees are paid for any unused leave annually prior to year end. Non-instructional employees must use any vacation, sick and personal leave days prior to July 31st. Therefore, the liability for the non-instructional employees has been included in the accrued salaries and benefits.

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

Budgets and Budgetary Accounting

Budgets are required by State statutes for all of the School's funds. Budgets for the General Fund and Student Activities Funds are adopted on a basis consistent with GAAP. Budgetary comparisons for the Building Corporation and Property Corporation Funds are presented on a non-GAAP basis. Capital outlay is budgeted as an expenditure and depreciation expense is not budgeted.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

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

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors throughout the year. The following is a summary of the original budget, total revisions and revised budget for those funds with amended budgets in fiscal year 2016:

	<u>Original Budget</u>	<u>Total Revisions</u>	<u>Revised Budget</u>
<u>Governmental Fund:</u>			
General Fund	\$ 21,577,099	\$ 3,330,927	\$ 24,908,026
Food Service Fund	2,383,438	105,000	2,488,438
<u>Proprietary Funds:</u>			
Building Corporation - Internal Service Fund	1,264,432	-	1,264,432
Property Corporation - Internal Service Fund	859,054	-	859,054
<u>Fiduciary Fund:</u>			
Student Activities Fund - Agency Fund	470,542	-	470,542
 <u>Total Funds</u>	 <u>\$ 26,554,565</u>	 <u>\$ 3,435,927</u>	 <u>\$ 29,990,492</u>

Fund Balance and Net Position

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net position - This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position - This category represents the net position of the School, which is not restricted for any project or other purpose. A deficit will require future funding.

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors (the "Board"). The Board is the highest level of decision making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Balance and Net Position (Continued)

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the Board has the authority to assign amounts for specific purposes.

Unassigned - all other spendable amounts.

The School has not established a formal policy for its use of restricted and unrestricted resources. However, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the School considers restricted resources to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the School has provided otherwise in its commitment or assignment actions.

Interfund Transactions

Interfund services provided and used 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 are reported as transfers.

Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

At June 30, 2016, the Building Corporation and Property Corporation Funds had negative net position of \$1,488,523 and \$455,649, respectively. Management expects these negative balances will be eliminated as debt is repaid.

Note 3 – Change in Fund Presentation

In fiscal year 2015, the School presented the food service operations within the General Fund. During 2016, the School became a School Food Authority and determined that the food service operations should be reported as a separate fund within the financial statements. Beginning fund balance for the General Fund was decreased by \$94,533 and for the Food Service Fund was increased by the same amount.

Note 4 - Cash and Investments

Cash and investments of the School, including the Building Corporation and Property Corporation, consisted of the following at June 30, 2016:

Petty cash	\$ 150
Bank deposits	8,066,057
Local government investment pool	<u>2,743,808</u>
	<u>\$ 10,810,015</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 4 - Cash and Investments (Continued)

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

Cash and investments	\$ 7,903,856
Restricted cash and investments	2,743,808
Agency fund cash and investments	<u>162,351</u>
	<u>\$ 10,810,015</u>

Deposits

Colorado state statutes govern the entity's deposits of cash. For deposits in excess of federally insured limits, Colorado Revised Statutes ("CRS") require the depository institution to maintain collateral on deposit with an official custodian (as authorized by the State Banking Board). The Colorado Public Deposit Protection Act ("PDPA") requires state regulators to certify eligible depositories for public deposit. PDPA requires the eligible depositories with public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation ("FDIC") to create a single institutional collateral pool of obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the assets in the pool must be at least 102% of the uninsured deposits. At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$8,066,057. The bank balances with the financial institutions were \$8,194,130, of which \$250,000 was covered by federal depository insurance. The remaining balance of \$7,944,130 was collateralized with securities held by the financial institutions' agents but not in the School's name.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States of America and certain U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Guaranteed investment pools
- Certain money market funds
- Local government investment pools

The School's investment policy follows state statutes.

Local Government Investment Pool

As of June 30, 2016, the School had invested \$2,743,808 in the Colorado Surplus Asset Fund Trust ("CSAFE"), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operate similarly to a money market fund and each share is equal in value to \$1.00. The designated custodial bank of CSAFE provides safekeeping and depository services in connection with the direct investment and withdrawal functions of CSAFE. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. Investments of CSAFE consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The investment policy of CSAFE does not include investing in derivatives. CSAFE has been rated AAAM by Standard & Poor's rating service.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 4 - Cash and Investments (Continued)

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years. This limit on investment maturities is the means of limiting exposure to fair value losses arising from increasing interest rates.

Restricted Cash and Investments

Cash and investments of \$1,492,263 and \$1,251,545 have been restricted by the Building Corporation and Property Corporation, respectively, for debt service and repair and replacement reserves.

Note 5 - Individual Fund Interfund Receivables/Payables and Transfers

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

The School considers all interfund receivable and payables to be temporary and in compliance with state law, which requires all balances to be repaid within three months of the year end.

The School's interfund receivables and payables at June 30, 2016, (at the fund level) are shown below.

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 11,658
Property Corporation Fund	General Fund	88,195
		<u>\$ 99,853</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 6 - Capital Assets

Changes in capital assets for governmental activities the year ended June 30, 2016, are summarized below.

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,625,000	\$ -	\$ -	\$ 2,625,000
Construction in Process	203,600		(203,600)	-
Total capital assets, not being depreciated	<u>2,828,600</u>	<u>-</u>	<u>(203,600)</u>	<u>2,625,000</u>
Capital assets, being depreciated				
Buildings	16,305,594	-	-	16,305,594
Vehicles and equipment	1,851,829	67,416	-	1,919,245
Improvements	11,669,497	249,419	-	11,918,916
Total capital assets, being depreciated	<u>29,826,920</u>	<u>316,835</u>	<u>-</u>	<u>30,143,755</u>
Less accumulated depreciation for:				
Buildings	(3,901,899)	(326,406)	-	(4,228,305)
Vehicles and equipment	(1,528,535)	(46,052)	-	(1,574,587)
Improvements	(1,819,630)	(242,793)	-	(2,062,423)
Total accumulated depreciation	<u>(7,250,064)</u>	<u>(615,251)</u>	<u>-</u>	<u>(7,865,315)</u>
Total capital assets, being depreciated, net	<u>22,576,856</u>	<u>(298,416)</u>	<u>-</u>	<u>22,278,440</u>
Capital assets, net	<u>\$25,405,456</u>	<u>\$ (298,416)</u>	<u>\$ -</u>	<u>\$24,903,440</u>

Depreciation expense of the governmental activities was charged to programs of the School as follows:

Governmental activities:	
Instruction	\$ 48,591
Supporting Services	566,660
	<u>\$ 615,251</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 7 - Long-Term Debt

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
2010 Building Loan	\$12,075,000	\$ -	\$ (235,000)	\$11,840,000	\$ 245,000
Discount	(436,667)	-	18,194	(418,473)	-
2013 Refunding Loan	16,670,000	-	(505,000)	16,165,000	520,000
Premium	1,020,107	-	(93,925)	926,182	-
	<u>\$29,328,440</u>	<u>\$ -</u>	<u>\$ (815,731)</u>	<u>\$28,512,709</u>	<u>\$ 765,000</u>

2010 Building Loan:

In January, 2010, CECFA issued \$12,985,000 Charter School Revenue Bonds. Proceeds of the bonds were loaned to the Property Corporation to pay off an existing loan and provide additional funding for a high school educational facility. The School is obligated under a lease agreement to make monthly lease payments to the Property Corporation for use of the facilities. The Property 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 2.4% to 5.125% per annum. The bonds mature on December 1, 2039.

Future debt service requirements of the 2010 building loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 245,000	\$ 588,859	\$ 833,859
2018	260,000	577,813	837,813
2019	270,000	566,219	836,219
2020	280,000	554,187	834,187
2021	295,000	540,687	835,687
2022-2026	1,715,000	2,460,935	4,175,935
2027-2031	2,210,000	1,972,007	4,182,007
2032-2036	2,845,000	1,332,885	4,177,885
2037-2040	3,720,000	456,895	4,176,895
Totals	<u>\$ 11,840,000</u>	<u>\$ 9,050,487</u>	<u>\$ 20,890,487</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 7 - Long-Term Debt (Continued)

Charter School Refunding Revenue Bonds, Series 2013

In March 2013, the Building Corporation issued \$17,685,000 in Charter School Refunding Revenue Bonds, Series 2013 with interest rates ranging between 3.00% and 5.00%. The Building Corporation issued the bonds to currently refund \$18,905,000 of the outstanding series 2003 Charter School Revenue Refunding and Improvement Bonds with interest rates ranging from 3.70% to 5.25%. The Building Corporation used the net proceeds along with other resources to satisfy the balance due on the series 2003 bonds.

The School is obligated under a lease agreement to make monthly lease payments to the Building Corporation for use of the facilities. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds mature on June 1, 2033.

Future debt service requirements of the 2013 series Charter School Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 520,000	\$ 719,038	\$ 1,239,038
2018	680,000	703,438	1,383,438
2019	710,000	676,238	1,386,238
2020	745,000	640,738	1,385,738
2021	775,000	610,938	1,385,938
2022-2026	4,455,000	2,468,838	6,923,838
2027-2031	5,665,000	1,262,563	6,927,563
2032-2033	2,615,000	158,000	2,773,000
Totals	<u>\$ 16,165,000</u>	<u>\$ 7,239,791</u>	<u>\$ 23,404,791</u>

Note 8 - Defined Benefit Pension Plan

General Information about the 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 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 that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. 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.

Note 8 - Defined Benefit Pension Plan (Continued)

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

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

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

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments ("COLAs"), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula 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.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 8 - Defined Benefit Pension Plan (Continued)

Contributions. Eligible employees and the School 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.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$1,657,580 for the year ended June 30, 2016.

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 liability of \$31,325,942 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School's proportion was 0.20482 percent, which was an increase of .01002 from its proportion measured as of December 31, 2014.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 8 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2016, the School recognized pension expense of \$2,621,930. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 413,663	\$ 1,305
Net difference between projected and actual earnings on pension plan investments	2,663,584	-
Changes of assumptions or other inputs		442,690
Changes in proportionate share	912,477	-
School contributions subsequent to the measurement date	875,131	-
	\$ 4,864,855	\$ 443,995

The \$875,131 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, 2017. 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,	Amortization
2017	\$ 1,136,674
2018	1,053,528
2019	803,478
2020	552,049
	\$ 3,545,729

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 8 - Defined Benefit Pension Plan (Continued)

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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- 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.

The following methodology changes were made:

- 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.

The SCHDTF's long-term expected rate of return on pension 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.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
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 Gov't/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	100.00%	

*In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 8 - Defined Benefit Pension Plan (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. 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, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions 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.
- 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 fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), 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 end of the month.

Based on the above actuarial cost method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 8 - Defined Benefit Pension Plan (Continued)

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 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$ 40,607,577	\$ 31,325,942	\$ 23,605,354

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.

Note 9 - Postemployment Health Care Benefits

Health Care Trust Fund

Plan Description – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF 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 health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014, the School's contributions to the HCTF were \$95,288, \$87,528, and \$83,922, respectively, equal to their required contributions for each year.

Note 10 - 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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2016

Note 11 - Commitments and Contingencies

Litigation

At times, the School may be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the School.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2016, significant amounts of grant expenditures have not been audited but the School 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 an amendment (the "Amendment" of "TABOR") to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and fiscal year spending include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the Amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage and fund reserve (balance). The Amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the spending limit must be refunded or approved to be retained by the School under specified voting requirements by the entire electorate.

The Amendment also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by the Amendment, exclude economic conditions, revenue shortfalls, or salary of fringe benefit increase. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The School has restricted \$506,000 for this purpose.

The School believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

Note 12 - Subsequent Events

Management of the School has evaluated subsequent events through October 20, 2016, the date that the financial statements were available to be issued. No transactions or events that would require adjustment to or disclosures in the financial statements were identified.

REQUIRED SUPPLEMENTARY INFORMATION

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Local sources:				
Per pupil revenue	\$ 15,236,426	\$ 14,722,429	\$ 14,780,590	\$ 58,161
Tuition and fees	224,100	235,100	252,284	17,184
BASE fees	175,000	150,000	143,242	(6,758)
Transportation fees	80,000	74,000	95,563	21,563
Transportation reimbursement	130,000	160,105	166,611	6,506
Facility rental	105,000	105,000	109,619	4,619
Earnings on investments	5,000	5,000	1,981	(3,019)
Other	48,890	55,003	101,518	46,515
Total local sources	<u>16,004,416</u>	<u>15,506,637</u>	<u>15,651,408</u>	<u>144,771</u>
State sources:				
Grants	1,236,428	1,178,632	1,216,708	38,076
Federal sources:				
Grants	<u>744,267</u>	<u>1,052,141</u>	<u>1,003,351</u>	<u>(48,790)</u>
<u>Total revenues</u>	<u>17,985,111</u>	<u>17,737,410</u>	<u>17,871,467</u>	<u>134,057</u>
<u>Expenditures</u>				
Instruction	9,015,647	8,837,211	8,623,849	213,362
Supporting services	8,666,452	8,999,419	8,541,116	458,303
Reserves	<u>3,895,000</u>	<u>6,735,118</u>	<u>-</u>	<u>6,735,118</u>
<u>Total expenditures</u>	<u>21,577,099</u>	<u>24,571,748</u>	<u>17,164,965</u>	<u>7,406,783</u>
<u>Excess of revenues over expenditures</u>	<u>(3,591,988)</u>	<u>(6,834,338)</u>	<u>706,502</u>	<u>7,540,840</u>
<u>Fund balance at beginning of year</u>	<u>6,834,338</u>	<u>6,928,760</u>	<u>6,928,760</u>	<u>-</u>
Restatement (see Note 3)	<u>-</u>	<u>-</u>	<u>(94,533)</u>	<u>(94,533)</u>
<u>Fund balance at end of year</u>	<u>\$ 3,242,350</u>	<u>\$ 94,422</u>	<u>\$ 7,540,729</u>	<u>\$ 7,446,307</u>

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
Food Service Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Local sources:				
Student meals	\$ 463,237	\$ 463,237	\$ 421,731	\$ (41,506)
Services provided charter school	68,000	68,000	64,492	(3,508)
Other	73,920	88,920	86,983	(1,937)
Total local sources	<u>605,157</u>	<u>620,157</u>	<u>573,206</u>	<u>(46,951)</u>
State sources:				
Grants	40,479	40,479	45,332	4,853
Federal sources:				
Grants	<u>1,643,269</u>	<u>1,733,269</u>	<u>1,772,482</u>	<u>39,213</u>
<u>Total revenues</u>	<u>2,288,905</u>	<u>2,393,905</u>	<u>2,391,020</u>	<u>(2,885)</u>
<u>Expenditures</u>				
Food services	2,315,746	2,420,746	2,418,842	1,904
Reserves	<u>67,692</u>	<u>67,692</u>	<u>-</u>	<u>67,692</u>
<u>Total expenditures</u>	<u>2,383,438</u>	<u>2,488,438</u>	<u>2,418,842</u>	<u>69,596</u>
<u>Excess of revenues over expenditures</u>	<u>(94,533)</u>	<u>(94,533)</u>	<u>(27,822)</u>	<u>66,711</u>
<u>Fund balance at beginning of year</u>	<u>94,533</u>	<u>94,533</u>	<u>-</u>	<u>94,533</u>
Restatement (see Note 3)	<u>-</u>	<u>-</u>	<u>94,533</u>	<u>(94,533)</u>
<u>Fund balance at end of year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,711</u>	<u>\$ 66,711</u>

See accompanying Independent Auditor's Report.

**Pinnacle Charter School, Inc.
Schedule of the School's Proportionate
Share of the Net Pension Liability
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.20482%	0.19480%	0.18670%
School's proportionate share of the net pension liability	\$ 31,325,942	\$ 26,403,085	\$ 23,163,893
School's covered-employee payroll	\$ 8,926,058	\$ 8,160,974	\$ 7,526,515
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	350.95%	323.53%	307.76%
Plan fiduciary net position as a percentage of the total pension	59.20%	62.84%	64.07%

* The amounts presented for each fiscal year were determined as of 12/31.

Information for the prior seven years were not available to report.

See accompanying Independent Auditor's Report.

**Pinnacle Charter School, Inc.
Schedule of School Contributions**

Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,657,580	\$ 1,449,580	\$ 1,245,728	\$ 1,091,835
Contributions in relation to the contractually required contribution	<u>(1,657,580)</u>	<u>(1,449,580)</u>	<u>(1,245,728)</u>	<u>(1,091,835)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 9,341,976	\$ 8,581,137	\$ 7,790,150	\$ 7,233,693
Contributions as a percentage of covered-employee payroll	17.74%	16.89%	15.99%	15.09%

Information for the prior six years was not available to report.

See accompanying Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
Building Corporation
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Lease revenues	\$ 1,262,932	\$ 1,262,932	\$ 1,261,574	\$ (1,358)
Earnings on investments	1,500	1,500	4,969	3,469
<u>Total revenues</u>	<u>1,264,432</u>	<u>1,264,432</u>	<u>1,266,543</u>	<u>2,111</u>
<u>Expenditures</u>				
Debt Service:				
Principal	506,250	506,250	505,000	1,250
Interest	732,925	732,925	732,925	-
Dues and fees	25,257	25,257	23,757	1,500
<u>Total expenditures</u>	<u>1,264,432</u>	<u>1,264,432</u>	<u>1,261,682</u>	<u>2,750</u>
<u>Excess of revenues over expenditures</u>	<u>\$ -</u>	<u>\$ -</u>	4,861	<u>\$ 4,861</u>
<u>Reconciliation to GAAP basis</u>				
Depreciation			(313,959)	
Amortization			(8,213)	
Principal paid			505,000	
<u>Change in net position - GAAP basis</u>			187,689	
<u>Net position at beginning of year</u>			(1,676,212)	
<u>Net position at end of year</u>			<u>\$ (1,488,523)</u>	

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
Property Corporation
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Lease revenues	\$ 857,554	\$ 857,554	\$ 857,630	\$ 76
Earnings on investments	1,500	1,500	3,483	1,983
<u>Total revenues</u>	<u>859,054</u>	<u>859,054</u>	<u>861,113</u>	<u>2,059</u>
<u>Expenditures</u>				
Debt Service:				
Principal	240,833	240,833	235,000	5,833
Interest	598,503	598,503	598,466	37
Dues and fees	19,718	19,718	19,218	500
<u>Total expenditures</u>	<u>859,054</u>	<u>859,054</u>	<u>852,684</u>	<u>6,370</u>
<u>Excess of revenues over expenditures</u>	<u>\$ -</u>	<u>\$ -</u>	8,429	<u>\$ 8,429</u>
<u>Reconciliation to GAAP basis</u>				
Depreciation			(206,648)	
Amortization			(18,194)	
Principal paid			235,000	
<u>Change in net position - GAAP basis</u>			18,587	
<u>Net position at beginning of year</u>			<u>(474,236)</u>	
<u>Net position at end of year</u>			<u>\$ (455,649)</u>	

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Schedule of Changes in Assets and Liabilities
Agency Fund - Student Activity Fund
For the Year Ended June 30, 2016

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Assets</u>				
Cash and investments	\$ 131,573	\$ 356,819	\$ 326,041	\$ 162,351
<u>Liabilities</u>				
Due to student groups	\$ 131,573	\$ 356,819	\$ 326,041	\$ 162,351

See accompanying Independent Auditor's Report.

**Pinnacle Charter School, Inc.
 Budgetary Comparison Schedule
 Student Activity Fund
 For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Student groups	\$ 338,969	\$ 338,969	\$ 356,819	\$ 17,850
<u>Total revenues</u>	338,969	338,969	356,819	17,850
<u>Expenditures</u>				
Student groups	470,542	470,542	326,041	144,501
<u>Total expenditures</u>	470,542	470,542	326,041	144,501
<u>Change in due to student groups</u>	<u>\$ (131,573)</u>	<u>\$ (131,573)</u>	30,778	<u>\$ 162,351</u>
<u>Due to student groups at beginning of year</u>			131,573	
<u>Due to student groups at end of year</u>			<u>\$ 162,351</u>	

See accompanying Independent Auditor's Report.

REPORTS TO GOVERNMENTAL AGENCIES



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Pinnacle Charter School, Inc.
Federal Heights, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pinnacle Charter School (the "School"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anton Collins Mitchell LLP

Greeley, Colorado
October 20, 2016



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Pinnacle Charter School, Inc.
Federal Heights, Colorado

Report on Compliance for The Major Federal Program

We have audited the Pinnacle Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2016. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on The Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.



Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anton Collins Mitchell LLP

Greeley, Colorado
October 20, 2016

Pinnacle Charter School, Inc.
Schedule of Findings and Questioned Costs
June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program for Children (NSLP)
10.559	Summer Food Service Program for Children (SFSP)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

**Pinnacle Charter School, Inc.
Schedule of Expenditures of Federal Awards**

June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2016 Federal Expenditures
U.S. Department of Agriculture			
Passed through Colorado Department of Education:			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	4553	\$ 289,567
National School Lunch Program	10.555	4555	1,325,572
Summer Food Service Program for Children	10.559	4559	11,942
Passed through Colorado Department of Human Services:			
Food commodities	10.555	4555	129,949
Child Nutrition Cluster subtotal			1,757,030
Passed through Colorado Department of Education:			
Fresh Fruit and Vegetable Program	10.582	4582	15,335
Total Expenditures of Federal Awards			\$ 1,772,365

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Pinnacle Charter School, Inc. (the "School") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allocable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Subrecipients

There were no subrecipients of federal awards during the year ended June 30, 2016.

4. Food Distribution

Commodities donated to the School by the U.S. Department of Agriculture ("USDA") are valued based on the USDA's Donated Commodity Price List and by values provided by the USDA. The commodities are recognized as revenue and expenditures when the commodities are used. As of June 30, 2016, the School has received food commodities totaling \$129,949.