

STARGATE CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2017



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Board of Directors
Stargate Charter School
Thornton, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Stargate Charter School, component unit of Adams County School District No. 12, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Stargate Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Stargate Charter School as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Other Matters (Supplementary Information)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stargate Charter School’s basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



October 12, 2017

Management's Discussion and Analysis (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

The management of Stargate Charter School (the school) offers this Management Discussion and Analysis (MD&A) of the school's financial performance to provide an overall review of financial activities for the fiscal year ended June 30, 2017. The intent of this narrative overview and analysis is to review the school's financial performance as a whole. Readers should review the MD&A in conjunction with the accompanying Financial Statements, including the Notes to Financial Statements, to gain an expanded understanding of the school's financial performance.

Financial Highlights

The period from July 1, 2016 through June 30, 2017 is the twenty second year of operation for Stargate Charter School. As of June 30, 2017 the net position of the school is <\$5,101,410>.

School operations are primarily supported by funding provided for in the Colorado State School Finance Act. Per pupil revenue for the year July 1, 2016 through June 30, 2017 was \$8,117,595. Stargate experienced an increase in overall per pupil revenues of \$117.30 per student compared with the 2015-2016 fiscal year.

Overview of Financial Statements

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

Government –Wide Financial Statements

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities, or objectives as designated by Colorado state statute. Stargate Charter School monitors these funds to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Stargate School adopts an annual budget for the general fund. A budgetary comparison has been provided to demonstrate compliance with the budget as part of the required supplementary information included in the audited financial statements.

The Stargate Foundation is considered a component unit of Stargate Charter School (the school) and is reported as a proprietary fund. Information is presented in the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows.

	Table 1: Net Position			
	2017 Governmental Activities	2016 Governmental Activities	2017 Business Type Activities	2016 Business Type Activities
ASSETS				
Capital Assets	1,484,009	75,709	40,742,180	41,067,738
Other Assets	7,769,441	2,380,028	2,798,396	10,938,303
Total Assets	9,253,450	2,455,737	43,540,576	52,006,041
Deferred Outflows	11,425,566	3,052,820		537,534
LIABILITIES				
Long Term Liabilities	24,955,025	11,701,219	41,380,000	44,070,000
Other Liabilities	722,560	479,297	975,981	10,336,018
Total Liabilities	25,677,585	12,180,516	42,355,981	54,406,018
NET POSITION				
Net Investment in Capital Assets	1,484,009	75,709	<782,022>	<4,556,558>
Restricted for Debt Service			1,966,617	2,694,115
Restricted for Special Ed	200,000	200,000		

Restricted for Capital Projects	5,351,019			
Restricted for Emergencies	290,000	206,000		
Unrestricted	<12,426,438>	<7,319,356>		
Total Net Position	<5,101,410>	<6,837,647>	1,184,595	<1,862,443>

Notes to Financial Statements

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

Government-wide Financial Analysis

For the year ending June 30, 2017, the governmental activities negative net position of Stargate Charter School totaled \$5,101,410. The school recognized \$290,000 to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. An additional \$200,000 in restricted reserves for Special Education liabilities are held in a segregated account at Wells Fargo Bank.

As of June 30, 2017, the Foundation had \$1,966,617 restricted for debt service. The Foundation had a net position of \$1,184,595.

	Table II: Change in Net Position			
	2017 Governmental Activities	2016 Governmental Activities	2017 Business Type Activities	2016 Business Type Activities
GENERAL REVENUES				
Per Pupil Revenue	8,117,595	5,708,681		
District Mill Levy	125,960	93,840		
Capital Construction	310,087	206,483		
Miscellaneous	74,504	1,464		
Investment Income	7,155	384	4,108	484
PROGRAM REVENUES				
Charges for Services :Instruction	703,093	591,368		
Charges for Services: Support	43,756	178,731		

Grants-Restricted	6,875,120	89,819	350,000	
Gain on Sale of Asset			4,651,706	
TOTAL REVENUE	16,257,270	6,870,770	5,005,814	484
EXPENSES				
Instruction	7,683,457	4,345,118		
Supporting Services	5,312,853	2,680,513		
Foundation			3,483,499	1,263,869
Total Expenses	12,996,310	7,025,631	3,483,499	1,263,869
Transfers	<1,524,723>	<521,890>	1,524,723	521,890
CHANGE IN NET POSITION	1,736,237	<676,751>	3,047,038	<741,495>
NET POSITION,BEGIN	<6,837,647>	<6,160,896>	<1,862,443>	<1,120,948>
NET POSITION,END	<5,101,410>	<6,837,647>	1,184,595	<1,862,443>

Fund Financial Analysis

General Fund

Revenues-Total Income from operations for the period of July 1, 2016 through June 30, 2017 was \$9,469,529. The majority of income was received in the form of Per Pupil Revenue allocated to Stargate Charter School from the State of Colorado through the charter authorizer Adams 12 Five Star School District. This funding source increased by 2% (\$117.30) per student between the 2015/2016 and 2016/2017 school years. Stargate receives Mill Levy Override funds from Adams 12 in the amount of \$125.96 per resident pupil as a component of local revenue. The District also allocates state and federal IDEA and ECEA funds to the school for special education per the charter contract. Investment income of \$6,652 was recognized for the year. Tuition for all day kindergarten and before and after child care was received in support of the general operation of the school. Food service revenue offsets the cost of the school's hot lunch program.

Expenditures-Total expenditures for the period of July 1, 2016 through June 30, 2017 were \$9,674,398. Salaries were \$5,029,479; benefits were \$1,527,056; purchased services were \$814,284; materials and supplies were \$778,606; rent to the Foundation was \$1,524,973. Expenditures increased 51% from the previous year as per pupil revenue expanded from increased enrollment.

Net Income-For the period of July 1, 2016 through June 30, 2017 Stargate Charter School recorded a net loss of \$204,869 in the General Fund. This loss will decrease the general fund contingency which will be maintained in a manner consistent with the Board Reserve Strategy. The balance can be available for future year's expenditure.

Building Fund

A capital contribution in the amount of \$6,787,238 was received in March 2017 as proceeds from the Adams 12 bond. These funds are restricted for capital projects.

Agency Fund

Student fees, technology fees, field trip fees, outdoor education payments and fundraising proceeds are processed through the school's agency fund. As of June 30, 2017 the agency fund had a cumulative balance of \$368,624 available to student groups. Of this total \$245,282 were fund raising dollars.

Stargate Foundation

Revenues-Total income for the period of July 1, 2016 through June 30, 2017 was \$6,530,537. This income is derived from rent payments from the school General Fund in accordance with the lease agreement in the amount of \$1,524,723. The Foundation receives an insignificant amount of interest income \$4,108 on the deposits held by the trustee. Additionally, the Foundation recognized a gain on the sale of the property at 3951 Cottonwood Lakes Blvd of \$4,651,706. Student activities also contributed \$350,000 from fund raising proceeds for various projects related to the construction.

Expenses-Total expenses for the period of July 1, 2016 through June 30, 2017 were \$3,483,499. The interest expense for the year was \$2,266,880. The depreciation expense was \$679,085. Amortization of the loss on debt refunding in the amount of \$537,534 was also recorded as part of interest expense.

Net Income-As of June 30, 2017 Stargate recorded change in net position of \$3,047,038 due to the proceeds from the sale of the property at 3951 Cottonwood Lakes Blvd.

Analysis of Budget –General Fund

The original budget for Stargate School was adopted in April of 2016. There were two notable additions to the budget that were approved in July 2016. A supplemental appropriation was approved for a staff bonus of \$230,000 and for additional start-up materials and supplies of \$100,000. A supplemental appropriation for additional classified salary expenses and increased instructional supplies was approved in June 2017.

There were no significant variations between the final budget amounts approved by the Stargate Charter School Board of Directors and the actual budget result for the period of July 1, 2016 through June 30, 2017. Eagle's Landing performed above expectation. The food service program was changed to a catering based service in 2016-2017. The new program produced a moderate profit.

Capital Assets and Debt Administration-General Fund

Capital Assets-As of June 30, 2017, Stargate Charter School has \$1,484,009 in capital assets, net of depreciation. The majority of these assets are represented by the completed turf fields valued at ~ \$1,200,000. The rest of these assets are capitalized equipment within the school that are not a permanent part of the building.

Long-term debt-As of June 30, 2017 the school had no long-term debt.

Capital Assets and Debt Administration-Foundation

Capital Assets-Stargate Foundation's capital assets as of June 30, 2017 amount to \$37,239,111, net of accumulated depreciation. These assets represent the building and improvements to the facility. In addition, the Foundation has non depreciable assets of \$3,503,069 in land acquisition costs.

In April 2015 the Colorado Educational and Cultural Facilities Authority issued Revenue Bond Series 2015 A, B, and C on behalf of Stargate Foundation. The purpose of the Series 2015 B and C (taxable) bonds was to refund the outstanding Series 2006 in the amount of \$8,405,000. Additionally, the Series 2015A bonds were issued for the construction of a new secondary school facility (6-12), a new elementary facility (K-5) and construction of a stand- alone field house. Stargate Foundation purchased 43 acres at 14530 Washington St, Thornton, CO for the development of the project. Construction was completed in August, 2016.

Additional information on capital assets and long-term debt is provided in Notes 4 and 5 to the financial statements.

Long-term Debt - As of June 30, 2017 Stargate Foundation had outstanding debt of \$41,960,000.

In July of 2016 Stargate Foundation completed the transaction with the Archdiocese of Denver for the sale of the property at 3951 Cottonwood Lakes Blvd. The sale amount of this facility was \$11,700,000. Proceeds of this sale were used to pay off the 2015 series B and C bonds in the amount of \$8,405,000 plus interest in November of 2016. The foundation received net proceeds of this sale in the approximate amount of \$2,700,000. These proceeds were be used to complete the field house project.

Net Pension Liability

In compliance with GASB 68, as of June 30, 2017 Stargate School shows a net pension liability of \$24,941,458 on its statement of net position. This amount represents Stargate's proportionate share of the outstanding unfunded pension liability of the Colorado Public Employees Retirement Association. The negative net position of the school at year end can be attributed to this liability.

Additional information on this calculation and defined benefit pension plan reporting is provided in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the school is the future of the Colorado state budget and related impacts on Public School Finance. Stargate Charter School's funded enrollment is 1087 students in grades K-10 with a significant waiting list at the lower grades. Budgetary forecasting for the next five years takes a strategic approach to maintaining educational standards while applying a conservative fiscal approach to budgeting. Stargate Charter School regularly monitors legislative trends discussions and legislation that may impact funding and adjust the budget model accordingly. Stargate Charter School is confident in its ability to forecast and adjust to potential impacts to the school's primary funding source.

In the 2017-2018 school year Stargate School will continue a multi- year expansion into grades 9-12. Ninth grade was added in the 2015-2016 school year with one additional grade added each of the subsequent school years. Enrollment for the 2017-2018 school years is projected at 1343 in grades K-11. Enrollment at full expansion is projected at 600 students K-5, 375 students 6-8 and 640 students 9-12 by school year 2020-2021.

Requests for Information

The financial report is designed to provide a general overview of Stargate Charter 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:

Stargate Charter School

14530 Washington Street

Thornton, CO 80023

BASIC FINANCIAL STATEMENTS

STARGATE CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 7,739,913	\$ -	\$ 7,739,913
Restricted Cash and Investments	-	2,798,396	2,798,396
Accounts Receivable	4,285	-	4,285
Grants Receivable	22,075	-	22,075
Prepaid Expenses	3,168	-	3,168
Capital Assets, Not Being Depreciated	254,700	3,503,069	3,757,769
Capital Assets, Net of Accumulated Depreciation	1,229,309	37,239,111	38,468,420
TOTAL ASSETS	9,253,450	43,540,576	52,794,026
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	11,425,566	-	11,425,566
LIABILITIES			
Accounts Payable	74,391	207,161	281,552
Accrued Salaries and Benefits	631,320	-	631,320
Unearned Revenues	16,849	-	16,849
Accrued Interest Payable	-	188,820	188,820
Noncurrent Liabilities			
Due Within One Year	-	580,000	580,000
Due in More Than One Year	13,567	41,380,000	41,393,567
Net Pension Liability	24,941,458	-	24,941,458
TOTAL LIABILITIES	25,677,585	42,355,981	68,033,566
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	102,841	-	102,841
NET POSITION			
Net Investment in Capital Assets	1,484,009	(782,022)	701,987
Restricted for Debt Service	-	1,966,617	1,966,617
Restricted for Capital Projects	5,351,019	-	5,351,019
Restricted for Special Education	200,000	-	200,000
Restricted for Emergencies	290,000	-	290,000
Unrestricted	(12,426,438)	-	(12,426,438)
TOTAL NET POSITION	\$ (5,101,410)	\$ 1,184,595	\$ (3,916,815)

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

STARGATE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 7,683,457	\$ 703,093	\$ 80,349	\$ -
Supporting Services	5,312,853	43,756	7,533	6,787,238
Total Governmental Activities	12,996,310	746,849	87,882	6,787,238
Business-Type Activities				
Foundation	3,483,499	-	-	350,000
TOTAL PRIMARY GOVERNMENT	\$ 16,479,809	\$ 746,849	\$ 87,882	\$ 7,137,238

GENERAL REVENUES

Per Pupil Revenue
 District Mill Levy
 Capital Construction
 Investment Income
 Miscellaneous
 Gain on Sale of Capital Assets

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET EXPENSE (REVENUE) AND CHANGE IN NET POSITION

<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u>
\$ (6,900,015)	\$ -	\$ (6,900,015)
<u>1,525,674</u>	<u>-</u>	<u>1,525,674</u>
<u>(5,374,341)</u>	<u>-</u>	<u>(5,374,341)</u>
<u>-</u>	<u>(3,133,499)</u>	<u>(3,133,499)</u>
<u>(5,374,341)</u>	<u>(3,133,499)</u>	<u>(8,507,840)</u>
8,117,595	-	8,117,595
125,960	-	125,960
310,087	-	310,087
7,155	4,108	11,263
74,504	-	74,504
-	4,651,706	4,651,706
<u>(1,524,723)</u>	<u>1,524,723</u>	<u>-</u>
<u>7,110,578</u>	<u>6,180,537</u>	<u>13,291,115</u>
1,736,237	3,047,038	4,783,275
<u>(6,837,647)</u>	<u>(1,862,443)</u>	<u>(8,700,090)</u>
<u>\$ (5,101,410)</u>	<u>\$ 1,184,595</u>	<u>\$ (3,916,815)</u>

STARGATE CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL	BUILDING	TOTAL
ASSETS			
Cash and Investments	\$ 2,388,894	\$ 5,351,019	\$ 7,739,913
Accounts Receivable	4,285	-	4,285
Grants Receivable	22,075	-	22,075
Prepaid Expenditures	3,168	-	3,168
TOTAL ASSETS	\$ 2,418,422	\$ 5,351,019	\$ 7,769,441
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ 74,391	\$ -	\$ 74,391
Accrued Salaries and Benefits	631,320	-	631,320
Unearned Revenues	16,849	-	16,849
TOTAL LIABILITIES	722,560	-	722,560
FUND BALANCE			
Nonspendable Prepaid Expenditures	3,168	-	3,168
Restricted for Capital Projects	-	5,351,019	5,351,019
Restricted for Special Education	200,000	-	200,000
Restricted for Emergencies	290,000	-	290,000
Unrestricted, Unassigned	1,202,694	-	1,202,694
TOTAL FUND BALANCE	1,695,862	5,351,019	7,046,881
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,418,422	\$ 5,351,019	\$ 7,769,441

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

Total Fund Balance of the Governmental Funds	\$ 7,046,881
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	1,484,009
Long-term liabilities and related items, including compensated absences payable (\$13,567), net pension liability (\$24,941,458), deferred outflows of resources \$11,425,566, and deferred inflows of resources (\$102,841), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(13,632,300)
Total Net Position of Governmental Activities	\$ (5,101,410)

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

STARGATE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL	BUILDING	TOTAL
REVENUES			
Local Sources			
Per Pupil Revenue	\$ 8,117,595	\$ -	\$ 8,117,595
District Mill Levy	125,960	-	125,960
District Contributions	-	6,787,238	6,787,238
Tuition and Fees	703,093	-	703,093
Food Service Fees	38,609	-	38,609
Rental Income	5,147	-	5,147
Investment Income	6,652	503	7,155
Miscellaneous	74,504	-	74,504
State Sources			
Capital Construction	310,087	-	310,087
Grants	59,391	-	59,391
Federal Sources			
Grants	28,491	-	28,491
	9,469,529	6,787,741	16,257,270
TOTAL REVENUES			
EXPENDITURES			
Instruction	4,591,028	-	4,591,028
Supporting Services	5,083,370	-	5,083,370
Capital Outlay	-	1,436,722	1,436,722
	9,674,398	1,436,722	11,111,120
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	(204,869)	5,351,019	5,146,150
FUND BALANCE, Beginning	1,900,731	-	1,900,731
FUND BALANCE, Ending	\$ 1,695,862	\$ 5,351,019	\$ 7,046,881

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

Net Change in Fund Balance of the Governmental Funds	\$ 5,146,150
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Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which capital outlay \$1,484,927 exceeded depreciation expense (\$4,137) and disposals (\$72,490) in the current year.	1,408,300
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in compensated absences (\$7,553), net pension liability (\$13,246,253), pension-related deferred outflows of resources \$8,372,746, and pension-related deferred inflows of resources \$62,847 in the current year.	(4,818,213)
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Change in Net Position of Governmental Activities	\$ 1,736,237
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The accompanying notes are an integral part of the financial statements.

STARGATE CHARTER SCHOOL

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2017

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ 2,798,396
TOTAL CURRENT ASSETS	<u>2,798,396</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	3,503,069
Capital Assets, Net of Accumulated Depreciation	<u>37,239,111</u>
TOTAL NONCURRENT ASSETS	<u>40,742,180</u>
TOTAL ASSETS	<u>43,540,576</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	207,161
Accrued Interest Payable	188,820
Loan Payable, Current Portion	<u>580,000</u>
TOTAL CURRENT LIABILITIES	975,981
NONCURRENT LIABILITIES	
Loan Payable	<u>41,380,000</u>
TOTAL LIABILITIES	<u>42,355,981</u>
NET POSITION	
Net Investment in Capital Assets	(782,022)
Restricted for Debt Service	<u>1,966,617</u>
TOTAL NET POSITION	<u>\$ 1,184,595</u>

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

STARGATE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
 Year Ended June 30, 2017

	<u>FOUNDATION</u>
OPERATING REVENUES	
Charges for Services	<u>\$ 1,524,723</u>
OPERATING EXPENSES	
Depreciation	679,085
Interest and Fees	<u>2,804,414</u>
TOTAL OPERATING EXPENSES	<u>3,483,499</u>
NET OPERATING INCOME (LOSS)	<u>(1,958,776)</u>
NONOPERATING REVENUES	
Investment Income	4,108
Gain on Sale of Capital Assets	<u>4,651,706</u>
TOTAL NONOPERATING REVENUES	<u>4,655,814</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	2,697,038
Capital Contributions	<u>350,000</u>
CHANGE IN NET POSITION	3,047,038
NET POSITION, Beginning	<u>(1,862,443)</u>
NET POSITION, Ending	<u><u>\$ 1,184,595</u></u>

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

STARGATE CHARTER SCHOOL

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2017

	<u>FOUNDATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 1,524,723
Debt Principal Paid	(30,000)
Debt Interest and Fees Paid	<u>(2,307,985)</u>
Net Cash Provided (Used) by Operating Activities	<u>(813,262)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	11,220,967
Cash Contributions Received	350,000
Construction and Acquisition of Capital Assets	(10,238,905)
Interest Paid and Capitalized	(258,239)
Interest Income Received and Capitalized	424
Debt Principal Paid	<u>(8,405,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,330,753)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>4,108</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,139,907)
CASH AND CASH EQUIVALENTS, Beginning	<u>10,938,303</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 2,798,396</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (1,958,776)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	679,085
Amortization of Loss on Refunding	537,534
Changes in Assets and Liabilities	
Accrued Interest Payable	(41,105)
Loan Payable	<u>(30,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (813,262)</u>

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

STARGATE CHARTER SCHOOL

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2017

	<u>STUDENT ACTIVITY</u>
ASSETS	
Cash	<u>\$ 368,624</u>
LIABILITIES	
Accounts Payable	\$ 1,743
Due to Student Groups	<u>366,881</u>
TOTAL LIABILITIES	<u>\$ 368,624</u>

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

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stargate Charter School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within Adams County School District No. 12 (the “District”). The School began operations in the fiscal year beginning July 1, 1994. The School is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code.

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

Reporting Entity

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

Based upon the application of this criteria, the School includes the Stargate Foundation (the “Foundation”), a Colorado non-profit organization, within its reporting entity. The Foundation has a separate governing board but was organized for the sole purpose of financing and constructing the School’s facilities. The Foundation is blended into the School’s financial statements as an enterprise fund and does not issue separate financial statements.

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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 taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for the governmental funds, the proprietary fund, and the fiduciary fund, even though the latter is 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The fiduciary fund utilizes the accrual basis of accounting.

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 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.

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

The School reports the following major governmental and proprietary funds:

General Fund - This fund is the general operating fund of the School. It is used to account for all financial activities except those accounted for in another fund.

Building Fund - This fund is used to account for District bond proceeds contributed to the School and restricted for capital improvements.

Foundation - This fund is used to account for the financial activities of the Foundation, which are primarily related to capital assets and the related debt service.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the School reports the following fund type:

The *Agency Fund* is used to account for student fees collected for various activities. The School holds all resources in a purely custodial capacity.

Assets, Liabilities and Fund Balance/Net Position

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

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

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

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

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

Land Improvements	7 years
Buildings	10 - 50 years
Building Improvements	10 - 20 years
Equipment	3 - 10 years

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

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

Compensated Absences - School employees are entitled to certain compensated absences based on their length of employment and classification. Except for vacation leave, compensated absences do not vest or accumulate and are recorded as expenditures when used. Upon separation or retirement, employees are paid for up to 40 days of accrued vacation leave at their current rate of pay. A long-term liability has been reported in the government-wide financial statements for the accrued vacation leave.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Risk Management

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

NOTE 2: CASH AND INVESTMENTS

At June 30, 2017, the School and the Foundation had the following cash and investments:

Deposits	\$ 6,525,946
Investments	<u>4,380,987</u>
Total	<u>\$ 10,906,933</u>

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

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

Cash and Investments	\$ 7,739,913
Restricted Cash and Investments	2,798,396
Agency Fund Cash	<u>368,624</u>
Total	<u>\$ 10,906,933</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2017, the School had bank deposits of \$6,298,710 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

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

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

Fair Value Measurements - At June 30, 2017, the School's investment in the local government investment pool and the Foundation's investment in a money market fund were reported at the net asset value per share.

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

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations. At June 30, 2017, the Foundation's investment of \$2,798,396 in the Fidelity Government Portfolio Money Market Fund was rated AAAM by Standard and Poor's.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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

Local Government Investment Pool - At June 30, 2017, the School had \$1,582,591 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2017, the Foundation had cash and investments of \$2,798,396 restricted for capital projects and future debt service.

NOTE 3: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017, are summarized below:

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
Governmental Activities				
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ -	\$ 254,700	\$ -	\$ 254,700
Capital Assets, Being Depreciated				
Land Improvements	-	1,185,027	-	1,185,027
Buildings and Improvements	199,191	-	199,191	-
Equipment	53,565	45,200	46,865	51,900
Total Capital Assets, Being Depreciated	<u>252,756</u>	<u>1,230,227</u>	<u>246,056</u>	<u>1,236,927</u>
Less Accumulated Depreciation				
Buildings and Improvements	(126,366)	(335)	(126,701)	-
Equipment	(50,681)	(3,802)	(46,865)	(7,618)
Total Accumulated Depreciation	<u>(177,047)</u>	<u>(4,137)</u>	<u>(173,566)</u>	<u>(7,618)</u>
Total Capital Assets, Being Depreciated, Net	<u>75,709</u>	<u>1,226,090</u>	<u>72,490</u>	<u>1,229,309</u>
Governmental Activities Capital Assets, Net	<u>\$ 75,709</u>	<u>\$ 1,480,790</u>	<u>\$ 72,490</u>	<u>\$ 1,484,009</u>

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

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3: CAPITAL ASSETS (Continued)

	<u>Balances</u> 6/30/16	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/17
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 4,319,744	\$ -	\$ 816,675	\$ 3,503,069
Construction in Progress	<u>30,987,095</u>	<u>6,922,788</u>	<u>37,909,883</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>35,306,839</u>	<u>6,922,788</u>	<u>38,726,558</u>	<u>3,503,069</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	7,440,306	37,673,782	7,440,306	37,673,782
Equipment	<u>-</u>	<u>236,101</u>	<u>-</u>	<u>236,101</u>
Total Capital Assets, Being Depreciated	<u>7,440,306</u>	<u>37,909,883</u>	<u>7,440,306</u>	<u>37,909,883</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,679,407)	(677,153)	(1,687,720)	(668,840)
Equipment	<u>-</u>	<u>(1,932)</u>	<u>-</u>	<u>(1,932)</u>
Total Accumulated Depreciation	<u>(1,679,407)</u>	<u>(679,085)</u>	<u>(1,687,720)</u>	<u>(670,772)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,790,899</u>	<u>37,230,798</u>	<u>5,752,586</u>	<u>37,239,111</u>
Business-Type Activities Capital Assets, Net	<u>\$ 41,067,738</u>	<u>\$ 44,153,586</u>	<u>\$ 44,479,144</u>	<u>\$ 40,742,180</u>

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2017.

	<u>Balances</u> 6/30/16	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> 6/30/17	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Compensated Absences	<u>\$ 6,014</u>	<u>\$ 7,553</u>	<u>\$ -</u>	<u>\$ 13,567</u>	<u>\$ -</u>
Business-Type Activities					
2015 Building Loan	<u>\$ 50,395,000</u>	<u>\$ -</u>	<u>\$ 8,435,000</u>	<u>\$ 41,960,000</u>	<u>\$ 580,000</u>

Compensated Absences

Compensated absences of the governmental activities are expected to be liquidated with revenues of the General Fund.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 4: LONG-TERM DEBT (Continued)

Building Loan

In April, 2015, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$42,010,000 Charter School Improvement Revenue Bonds, Series 2015A, \$2,110,000 Charter School Refunding Revenue Bonds, Series 2015B, and \$6,295,000 Charter School Refunding Revenue Bonds, Taxable Series 2015C. Proceeds of the Series 2015A Bonds were loaned to the Foundation to acquire land and construct a new school campus consisting of elementary and secondary school buildings. Proceeds of the Series 2015B and 2015C Bonds were used to refund the outstanding Charter School Lease Revenue Refunding Bonds, Series 2006, originally issued to finance the land acquisition and construction of the School's existing educational facilities.

On July 20, 2016, the School sold its existing educational facilities and deposited \$8,515,619 with the trustee to fully redeem the Series 2015B and 2015C Bonds.

The School is obligated under a lease agreement to make monthly lease payments to the Foundation for using the facilities. The Foundation is required to make equal loan payments to the trustee, for payment of the bonds. Interest accrues on the Series 2015A Bonds at 5.4% per annum, and is payable semi-annually on June 1 and December 1. Principal payments are due annually on December 1, with a balloon payment due on December 1, 2020.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 580,000	\$ 2,250,180	\$ 2,830,180
2019	665,000	2,216,565	2,881,565
2020	700,000	2,179,710	2,879,710
2022	<u>40,015,000</u>	<u>1,080,405</u>	<u>41,095,405</u>
Total	<u>\$ 41,960,000</u>	<u>\$ 7,726,860</u>	<u>\$ 49,686,860</u>

NOTE 5: DEFINED BENEFIT PENSION PLAN

General Information

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

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

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

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). The School's contributions to the SDTF for the year ended June 30, 2017, were \$916,400, equal to the required contributions.

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

At June 30, 2017, the School reported a net pension liability of \$24,941,458, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2016, relative to the contributions of all participating employers. At December 31, 2016, the School's proportion was 0.0837696300%, which was an increase of 0.0073018666% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$5,705,837. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 302,645	\$ 171
Changes of assumptions and other inputs	8,092,983	102,670
Net difference between projected and actual earnings on plan investments	746,146	-
Changes in proportion	1,659,316	-
Contributions subsequent to the measurement date	<u>624,476</u>	<u>-</u>
Total	<u>\$ 11,425,566</u>	<u>\$ 102,841</u>

School contributions subsequent to the measurement date of \$624,476 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2018	\$ 4,528,932
2019	4,218,206
2020	1,942,792
2021	<u>8,319</u>
Total	<u>\$ 10,698,249</u>

Actuarial Assumptions - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u><u>100.00%</u></u>	

Discount Rate - The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.26%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	<u>\$ 31,363,082</u>	<u>\$ 24,941,458</u>	<u>\$ 19,711,278</u>

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

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

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

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was \$48,057, \$36,959 and \$31,359, respectively, equal to the required amounts for each year.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2017, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

STARGATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: **COMMITMENTS AND CONTINGENCIES** (Continued)

Special Education

As part of its charter contract with the District, the School has agreed to maintain a special education reserve to pay for extraordinary costs required to provide a free appropriate public education to special education students. Any withdrawals from the reserve must be approved by the District, and the reserve must be restored within two years. At June 30, 2017, this reserve was reported as restricted fund balance in the General Fund, in the amount of \$200,000.

Tabor Amendment

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$290,000.

REQUIRED SUPPLEMENTARY INFORMATION

STARGATE CHARTER SCHOOL

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

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2017

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0837696300%	0.0764677634%	0.0648855962%
School's Proportionate Share of the Net Pension Liability	\$ 24,941,458	\$ 11,695,205	\$ 8,794,178
School's Covered Payroll	\$ 3,759,731	\$ 3,332,448	\$ 2,718,235
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	351%	324%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 868,343	\$ 642,997	\$ 519,454
Contributions in Relation to the Statutorily Required Contribution	<u>(868,343)</u>	<u>(642,997)</u>	<u>(519,454)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 4,711,485	\$ 3,623,439	\$ 3,074,451
Contributions as a Percentage of Covered Payroll	18.43%	17.75%	16.90%

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

See the accompanying Independent Auditors' Report.

STARGATE CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 7,898,616	\$ 8,117,595	\$ 8,117,595	\$ -
District Mill Levy	129,396	129,396	125,960	(3,436)
Tuition and Fees	650,075	668,096	703,093	34,997
Food Service Fees	67,500	67,500	38,609	(28,891)
Rental Income	-	-	5,147	5,147
Investment Income	1,860	1,860	6,652	4,792
Miscellaneous	54,000	54,000	74,504	20,504
State Sources				
Capital Construction	380,578	380,578	310,087	(70,491)
Grants	60,000	60,000	59,391	(609)
Federal Sources				
Grants	18,000	18,000	28,491	10,491
TOTAL REVENUES	9,260,025	9,497,025	9,469,529	(27,496)
EXPENDITURES				
Instruction				
Salaries	2,984,727	3,242,727	3,233,092	9,635
Benefits	999,734	999,734	966,581	33,153
Purchased Services	115,950	115,950	114,874	1,076
Supplies and Materials	183,900	283,900	276,481	7,419
Total Instruction	4,284,311	4,642,311	4,591,028	51,283
Supporting Services				
Salaries	1,689,121	1,798,121	1,796,387	1,734
Benefits	577,400	577,400	560,475	16,925
Purchased Services	763,493	713,493	699,410	14,083
Supplies and Materials	312,959	462,959	502,125	(39,166)
Building Lease	1,574,219	1,574,219	1,524,973	49,246
Total Supporting Services	4,917,192	5,126,192	5,083,370	42,822
TOTAL EXPENDITURES	9,201,503	9,768,503	9,674,398	94,105
NET CHANGE IN FUND BALANCE	58,522	(271,478)	(204,869)	66,609
FUND BALANCE, Beginning	2,430,152	1,900,731	1,900,731	-
FUND BALANCE, Ending	\$ 2,488,674	\$ 1,629,253	\$ 1,695,862	\$ 66,609

See the accompanying Independent Auditors' Report.

STARGATE CHARTER SCHOOL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

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

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

Changes in Assumptions and Other Inputs

For the year ended June 30, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is adopted for the School on a basis consistent with generally accepted accounting principles. The School adheres to the following procedures to establish the budgetary information reflected in the financial statements.

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

Legal Compliance

For the year ended June 30, 2017, the Board of Directors did not adopt a budget for the Building Fund. This may be a violation of State statutes.

SUPPLEMENTARY INFORMATION

STARGATE CHARTER SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year Ended June 30, 2017

	<u>BALANCES</u> <u>6/30/16</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCES</u> <u>6/30/17</u>
ASSETS				
Cash	\$ 487,336	\$ 806,965	\$ 925,677	\$ 368,624
LIABILITIES				
Accounts Payable	\$ 200	\$ 1,743	\$ 200	\$ 1,743
Due to Student Groups	487,136	805,222	925,477	366,881
TOTAL LIABILITIES	<u>\$ 487,336</u>	<u>\$ 806,965</u>	<u>\$ 925,677</u>	<u>\$ 368,624</u>

See the accompanying Independent Auditors' Report.