

CHERRY CREEK ACADEMY

FINANCIAL STATEMENTS

June 30, 2017



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Board of Directors
Cherry Creek Academy
Englewood, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Cherry Creek Academy, component unit of Cherry Creek School District, 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 Cherry Creek Academy, 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 and each major fund of Cherry Creek Academy as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Ernst & Young LLP

October 9, 2017

Cherry Creek Academy
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2017

As management of Cherry Creek Academy (the Academy), we offer readers of the Academy's basic financial statements this narrative and analysis of the financial activities of the Academy for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ending June 30, 2017 is the twenty-second year of operations for the Academy. The general fund balance increased to \$1,820,122 from \$1,663,989 in the year ending June 30, 2016.

The operations of the Academy are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was approximately \$3,956,754. The Academy also received \$572,086 in Mill Levy Override revenue.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the Academy's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of yearend).

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 Academy keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

The Academy adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

Notes to Financial Statements

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

Cherry Creek Academy
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2017

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the Academy's financial position. For the year ending June 30, 2017, the Academy's government-wide liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources by \$3,091,285. Approximately \$144,785 of these funds is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Also, \$338,004 of these funds is restricted for reserves required as security for the bonds issued to finance the building. Accordingly, these funds are not available to satisfy general operating expenses of the Academy. In addition, \$3,811,484 of these funds represents investments in capital assets (net of depreciation). As outlined in Note 6 to the financial statements the Academy participates in a Defined Benefit Pension Plan and has recorded a Net Pension Liability as of June 30, 2017 of \$15,778,869 increased from \$7,646,861 as of June 30, 2016. The large change was due to the changes in actuarial assumptions by PERA. This resulted in a negative Unrestricted Net Position of \$7,435,956 increased from \$4,742,476 as of June 30, 2016.

Statement of Net Position

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|-----------------------------|---------------------------|
| Cash and Investments | \$2,138,539 | \$1,788,122 |
| Restricted Cash and Investments | 666,967 | 809,633 |
| Accounts Receivable / Prepaid Items | 3,020 | 6,205 |
| Capital Assets, Not Depreciated | 1,793,010 | 1,028,597 |
| Capital Assets, Net of Depreciation | 4,710,422 | 5,777,035 |
| Total Assets | <u>9,311,958</u> | <u>9,409,592</u> |
| Deferred Outflows of Resources – | | |
| Deferred Outflows of Resources Related to Pensions | 6,734,831 | 1,631,786 |
| Loss on Lease Refinancing | 82,637 | 89,118 |
| Total Deferred Outflows of Resources | <u>6,817,468</u> | <u>1,720,904</u> |
| Accounts Payable | 27,559 | 2,564 |
| Accrued Liabilities | 236,053 | 214,639 |
| Accrued Salaries & Benefits | 246,943 | 227,174 |
| Unearned Revenues | 57,825 | 77,666 |
| Accrued Interest Payable | 31,622 | 33,022 |
| Noncurrent Liabilities - Debt | 2,774,585 | 2,913,376 |
| Noncurrent Liabilities - Net Pension Liability | 15,778,869 | 7,646,861 |
| Total Liabilities | <u>19,153,456</u> | <u>11,115,302</u> |
| Deferred Inflows of Resources Related to Pensions | <u>67,255</u> | <u>108,368</u> |
| Net position | | |
| Net Investment in Capital Assets | 3,811,484 | 3,892,256 |
| Restricted for Emergencies | 144,785 | 139,046 |
| Restricted for Working Capital | 0 | 233,094 |
| Restricted for Repair and Replacement | 50,398 | 50,025 |
| Restricted for Debt Service | 338,004 | 334,881 |
| Unrestricted | (7,435,956) | (4,742,476) |
| Total Net Position | <u><u>\$(3,091,285)</u></u> | <u><u>\$ (93,174)</u></u> |

Cherry Creek Academy
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2017

Changes in Net Position

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| Program Revenue: | | |
| Charges for Services | \$ 259,506 | \$ 242,688 |
| Operating Grants and Contributions | 46,246 | 65,607 |
| Capital Grants and Contributions | 764,413 | 0 |
| Total Program Revenue | <u>1,070,165</u> | <u>308,295</u> |
| General Revenue: | | |
| Per Pupil Revenue | 3,956,754 | 3,878,822 |
| Mill Levy Revenue | 572,086 | 448,730 |
| Capital Construction Grant | 151,934 | 141,447 |
| Grants & Contributions not Restricted to Specific Programs | 7,244 | 0 |
| Investment Earnings | 13,291 | 5,525 |
| Other | 134 | 71,420 |
| Total General Revenue | <u>4,701,443</u> | <u>4,545,944</u> |
| Total Revenue | <u>5,771,608</u> | <u>4,854,239</u> |
| Expenses: | | |
| Current: | | |
| Instruction | 5,431,997 | 3,632,945 |
| Supporting Services | 2,227,810 | 1,572,753 |
| Debt Service | 138,963 | 144,210 |
| Loss on Disposal of Capital Assets | 970,949 | 0 |
| Total Expenses | <u>8,769,719</u> | <u>5,349,908</u> |
| Increase (Decrease) in Net Position | (2,998,111) | (495,669) |
| Beginning Net Position, June 30 | <u>(93,174)</u> | <u>402,495</u> |
| Ending Net Position, June 30 | <u>\$(3,091,285)</u> | <u>\$ (93,174)</u> |

Financial Analysis of the Academy's Funds

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

As of the end of the current fiscal year, the Academy's governmental funds reported a combined ending fund balance of \$2,240,146, an increase of \$158,229.

The general fund is the major operating fund of the Academy. At the end of 2017, the general fund balance was \$1,820,122, an increase of \$156,133. This increase was the result of an increase in revenues from various sources.

The largest portion of the School's revenues come from per pupil funding – 79.0% in FY 2017 and 79.9% in FY 2016. In FY 2017 and FY 2016, 11.4% and 9.2%, respectively, of revenues came from District Mill Levy. The School's revenue increased by \$150,688 and expenses increased by \$185,823 in FY 2017.

The CCA Facility Corporation actual expenditures were \$272,673, primarily debt service which was offset by a transfer from the General Fund of \$270,874 during FY 2017 fiscal year.

Cherry Creek Academy
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2017

General Fund Budgetary Highlights

The Academy budgeted for expenditures and transfers of \$5,137,103 for the year ended June 30, 2017. Actual expenditures and transfers were \$4,847,167. There was one budget amendment made during the year to account for increases in purchased services, salaries, benefits, and book/supply expenses.

Capital Asset and Debt Administration

Capital assets. The Academy's investment in capital assets as of June 30, 2017, amounts to \$6,503,432 (net of accumulated depreciation). This investment in capital assets includes land, the preliminary & renovated building, playground, office and instructional equipment. The detail of this investment is in Note 3 to the financial statements. Renovation of the gym area and adjoining classrooms began June 2017 and is anticipated to be completed by April 2018. Removal of the old gym was recorded in the amount of \$970,949 (net of accumulated depreciation) and \$764,413 was recorded as construction in progress as of June 30, 2017.

Long-term debt. The School participates in a long-term lease agreement with the Cherry Creek Academy Facility Corporation. Monthly principal and interest payments are due under the lease agreement, with interest accruing at rates ranging from 2% to 4.75%. The lease ends in April 2030. Annual debt service ranges from \$272,088 to \$276,575 with payments that began in calendar year 2008.

The Academy maintains credit ratings with Moody's Investors Services, Inc. and the 2012 bonds were currently rated Baa2. Long-term debt is detailed in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the Academy is student enrollment. Funded pupil count for the previous school years are listed below. The enrollment projected for the 2017-2018 school year is expected to be 520.16. This factor was considered in preparing the Academy's budget for the 2017-2018 fiscal year.

| Fiscal Year | Enrollment |
|-------------|------------|
| 2007 / 2008 | 430.00 |
| 2008 / 2009 | 436.50 |
| 2009 / 2010 | 448.50 |
| 2010 / 2011 | 450.50 |
| 2011 / 2012 | 461.00 |
| 2012 / 2013 | 470.16 |
| 2013 / 2014 | 481.16 |
| 2014 / 2015 | 537.24 |
| 2015 / 2016 | 547.16 |
| 2016 / 2017 | 547.16 |

Requests for Information

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

Cherry Creek Academy
6260 S. Dayton Street
Englewood, CO 80111

BASIC FINANCIAL STATEMENTS

CHERRY CREEK ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and Investments | \$ 2,138,539 |
| Restricted Cash and Investments | 666,967 |
| Accounts Receivable | 3,020 |
| Capital Assets, Not Being Depreciated | 1,793,010 |
| Capital Assets, Net of Accumulated Depreciation | <u>4,710,422</u> |
| TOTAL ASSETS | <u>9,311,958</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions, Net of Accumulated Amortization | 6,734,831 |
| Loss on Debt Refunding, Net of Accumulated Amortization | <u>82,637</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>6,817,468</u> |
| LIABILITIES | |
| Accounts Payable | 27,559 |
| Accrued Liabilities | 236,053 |
| Accrued Salaries and Benefits | 246,943 |
| Unearned Revenues | 57,825 |
| Accrued Interest Payable | 31,622 |
| Noncurrent Liabilities | |
| Due Within One Year | 150,000 |
| Due in More Than One Year | 2,624,585 |
| Net Pension Liability | <u>15,778,869</u> |
| TOTAL LIABILITIES | <u>19,153,456</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions, Net of Accumulated Amortization | <u>67,255</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 3,811,484 |
| Restricted for Building Repairs | 50,398 |
| Restricted for Debt Service | 338,004 |
| Restricted for Emergencies | 144,785 |
| Unrestricted | <u>(7,435,956)</u> |
| TOTAL NET POSITION | <u>\$ (3,091,285)</u> |

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

CHERRY CREEK ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES |
|--|---------------------|-------------------------|--|--|---|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | |
| PRIMARY GOVERNMENT | | | | | |
| Governmental Activities | | | | | |
| Instruction | \$ 5,431,997 | \$ 251,467 | \$ 25,246 | \$ - | \$ (5,155,284) |
| Supporting Services | 2,227,810 | 8,039 | 21,000 | 764,413 | (1,434,358) |
| Interest Expense | 138,963 | - | - | - | (138,963) |
| Total Primary Government | <u>\$ 7,798,770</u> | <u>\$ 259,506</u> | <u>\$ 46,246</u> | <u>\$ 764,413</u> | <u>(6,728,605)</u> |
| GENERAL REVENUES | | | | | |
| | | | | | 3,956,754 |
| | | | | | 572,086 |
| | | | | | 151,934 |
| | | | | | 7,244 |
| | | | | | 13,291 |
| | | | | | 134 |
| SPECIAL ITEM | | | | | |
| | | | | | (970,949) |
| TOTAL GENERAL REVENUES AND SPECIAL ITEM | | | | | <u>3,730,494</u> |
| CHANGE IN NET POSITION | | | | | (2,998,111) |
| NET POSITION, Beginning | | | | | <u>(93,174)</u> |
| NET POSITION, Ending | | | | | <u>\$ (3,091,285)</u> |

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

CHERRY CREEK ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

| | GENERAL | FACILITY CORPORATION | TOTALS |
|---|---------------------|-------------------------|---------------------|
| ASSETS | | | |
| Cash and Investments | \$ 2,138,539 | \$ - | \$ 2,138,539 |
| Restricted Cash and Investments | 246,943 | 420,024 | 666,967 |
| Accounts Receivable | 3,020 | - | 3,020 |
| | <u>\$ 2,388,502</u> | <u>\$ 420,024</u> | <u>\$ 2,808,526</u> |
| TOTAL ASSETS | | | |
| LIABILITIES AND FUND BALANCE | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 27,559 | \$ - | \$ 27,559 |
| Accrued Liabilities | 236,053 | - | 236,053 |
| Accrued Salaries and Benefits | 246,943 | - | 246,943 |
| Unearned Revenues | 57,825 | - | 57,825 |
| | <u>568,380</u> | <u>-</u> | <u>568,380</u> |
| TOTAL LIABILITIES | | | |
| FUND BALANCE | | | |
| Restricted for Building Repairs | - | 50,398 | 50,398 |
| Restricted for Debt Service | - | 369,626 | 369,626 |
| Restricted for Emergencies | 144,785 | - | 144,785 |
| Assigned to Future Facility Projects | 655,000 | - | 655,000 |
| Assigned to Special Education | 25,000 | - | 25,000 |
| Unrestricted, Unassigned | 995,337 | - | 995,337 |
| | <u>1,820,122</u> | <u>420,024</u> | <u>2,240,146</u> |
| TOTAL FUND BALANCE | | | |
| TOTAL LIABILITIES AND FUND BALANCE | | | |
| | <u>\$ 2,388,502</u> | <u>\$ 420,024</u> | <u>\$ 2,808,526</u> |

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

| | |
|---|-----------------------|
| Total Fund Balance of the Governmental Fund | \$ 2,240,146 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 6,503,432 |
| Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds. These include loans payable (\$2,790,000), discount \$15,415, accrued interest payable (\$31,622), loss on debt refunding \$82,637, net pension liability (\$15,778,869), pension-related deferred outflows of resources \$6,734,831, and pension-related deferred inflows of resources (\$67,255). | (11,834,863) |
| Total Net Position of Governmental Activities | <u>\$ (3,091,285)</u> |

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

CHERRY CREEK ACADEMY

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

| | GENERAL | FACILITY CORPORATION | TOTALS |
|---|---------------------|-------------------------|---------------------|
| REVENUES | | | |
| Local Sources | \$ 4,826,120 | \$ 3,895 | \$ 4,830,015 |
| State Sources | 177,180 | - | 177,180 |
| TOTAL REVENUES | 5,003,300 | 3,895 | 5,007,195 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | 3,177,636 | - | 3,177,636 |
| Supporting Services | 1,398,657 | - | 1,398,657 |
| Debt Service | | | |
| Principal | - | 140,000 | 140,000 |
| Interest and Fiscal Charges | - | 132,673 | 132,673 |
| TOTAL EXPENDITURES | 4,576,293 | 272,673 | 4,848,966 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 427,007 | (268,778) | 158,229 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | 270,874 | 270,874 |
| Transfers Out | (270,874) | - | (270,874) |
| TOTAL OTHER FINANCING SOURCES (USES) | (270,874) | 270,874 | - |
| NET CHANGE IN FUND BALANCE | 156,133 | 2,096 | 158,229 |
| FUND BALANCE, Beginning | 1,663,989 | 417,928 | 2,081,917 |
| FUND BALANCE, Ending | <u>\$ 1,820,122</u> | <u>\$ 420,024</u> | <u>\$ 2,240,146</u> |

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

CHERRY CREEK ACADEMY

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

Year Ended June 30, 2017

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

| | | |
|---|----|---------------------------|
| Net Change in Fund Balance of the Governmental Funds | \$ | 158,229 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$167,247) and disposals (\$970,949) exceeded capital outlays \$71,583 and capital contributions \$764,413 in the current year. | | (302,200) |
| The repayment of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | | 140,000 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items: amortization of discount (\$1,209) and loss on debt refunding (\$6,481). | | (7,690) |
| 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 accrued interest payable \$1,400, net pension liability (\$8,132,008), pension-related deferred outflows of resources \$5,103,045, and pension-related deferred inflows of resources \$41,113 in the current year. | | <u>(2,986,450)</u> |
| Change in Net Position of Governmental Activities | \$ | <u><u>(2,998,111)</u></u> |

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

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cherry Creek Academy, Inc. (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Cherry Creek School District (the “District”).

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 accounting policies.

Reporting Entity

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

The School includes the Cherry Creek Academy Facility, Inc. (the “Facility Corporation”) within its reporting entity. The Facility Corporation was organized primarily to finance the acquisition and construction of educational facilities, and currently leases facilities only to the School. The Facility Corporation is blended into the School’s financial statements as a special revenue fund, and does not issue separate financial statements.

The School is a component unit of the District. The School’s charter was 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 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 in a single column.

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*.

Major individual funds are reported as separate columns in the fund financial statements.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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*. 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 are recorded only when payment is due.

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 funds:

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

Facility Corporation - This fund is used to account for the financial activities of the Facility Corporation, including facilities acquisition and construction, and the related debt service.

Assets, Liabilities and Fund Balance/Net Position

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

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the government-wide 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 on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

| | |
|-------------------------|---------------|
| Buildings | 20 - 50 years |
| Building Improvements | 20 - 50 years |
| Furniture and Equipment | 10 - 20 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 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 - Employees of the School are allowed to accumulate limited amounts of unused paid time off. The School does not reimburse or otherwise compensate employees for any unused paid time off at separation. Therefore, no liability is reported in the financial statements for these compensated absences.

Long-Term Debt - In the government-wide 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 fund balances.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and also participates in the District's risk management programs for these risks of loss.

NOTE 2: CASH AND INVESTMENTS

At June 30, 2017, cash and investments consisted of the following:

| | |
|-------------|----------------------------|
| Deposits | \$ 2,130,123 |
| Investments | <u>675,383</u> |
| Total | <u>\$ 2,805,506</u> |

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

| | |
|---------------------------------|----------------------------|
| Cash and Investments | \$ 2,138,539 |
| Restricted Cash and Investments | <u>666,967</u> |
| Total | <u>\$ 2,805,506</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 \$1,444,147 collateralized with securities held by the financial institutions' agents 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

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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 most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investment.

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

Local Government Investment Pool - At June 30, 2017, the School and the Facility Corporation had \$675,383 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), 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 Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7. Colotrust is measured at the net asset value per share, 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 General Fund reported restricted cash of \$246,943, representing its cash reserve to cover accrued and unpaid salaries in accordance with the School's charter agreement. In addition, the Facility Corporation had investments of \$420,024 restricted for debt service and building repairs, as required by its loan agreement (See Note 4).

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is summarized below.

| | Balances <u>6/30/16</u> | <u>Additions</u> | <u>Deletions</u> | Balances <u>6/30/17</u> |
|---|----------------------------|------------------|------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 744,711 | \$ - | \$ - | \$ 744,711 |
| Land Improvements | 283,886 | - | - | 283,886 |
| Construction in Progress | <u>-</u> | <u>764,413</u> | <u>-</u> | <u>764,413</u> |
| Total Capital Assets, Not Being Depreciated | <u>1,028,597</u> | <u>764,413</u> | <u>-</u> | <u>1,793,010</u> |

CHERRY CREEK ACADEMY
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 |
|--|----------------------------|-------------------|-------------------|----------------------------|
| Governmental Activities (Continued) | | | | |
| Capital Assets, Being Depreciated | | | | |
| Buildings | 6,597,353 | - | 1,286,484 | 5,310,869 |
| Building Improvements | 599,221 | - | - | 599,221 |
| Furniture and Equipment | <u>318,414</u> | <u>71,583</u> | - | <u>389,997</u> |
| Total Capital Assets, Being Depreciated | <u>7,514,988</u> | <u>71,583</u> | <u>1,286,484</u> | <u>6,300,087</u> |
| Less Accumulated Depreciation | | | | |
| Buildings | (1,482,777) | (135,352) | (315,535) | (1,302,594) |
| Building Improvements | (185,479) | (18,421) | - | (203,900) |
| Furniture and Equipment | <u>(69,697)</u> | <u>(13,474)</u> | - | <u>(83,171)</u> |
| Total Accumulated Depreciation | <u>(1,737,953)</u> | <u>(167,247)</u> | <u>(315,535)</u> | <u>(1,589,665)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>5,777,035</u> | <u>(95,664)</u> | - | <u>4,710,422</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 6,805,632</u> | <u>\$ 668,749</u> | <u>\$ 970,949</u> | <u>\$ 6,503,432</u> |

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

| | | |
|--------------------------------|--|-------------------|
| Governmental Activities | | |
| Instruction | | \$ 13,474 |
| Supporting Services | | <u>153,773</u> |
| Total | | <u>\$ 167,247</u> |

During the year ended June 30, 2017, the School demolished the existing gym and began construction of a new building. The gym was removed from capital assets and the resulting loss on disposal has been reported as a special item in the financial statements.

NOTE 4: LONG-TERM DEBT

Following is a summary of the 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 | | | | | |
| 2012 Building Loan | \$ 2,930,000 | \$ - | \$ 140,000 | \$ 2,790,000 | \$ 150,000 |
| Discount | <u>(16,624)</u> | <u>-</u> | <u>(1,209)</u> | <u>(15,415)</u> | <u>-</u> |
| Total | <u>\$ 2,913,376</u> | <u>\$ -</u> | <u>\$ 138,791</u> | <u>\$ 2,774,585</u> | <u>\$ 150,000</u> |

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 4: LONG-TERM DEBT (Continued)

In March, 2012, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$3,460,000 Charter School Revenue Refunding Bonds, Series 2012. Bond proceeds were used to refund the outstanding Charter School Refunding Revenue Bonds, Series 2001. Proceeds of the Series 2001 Bonds were loaned to the Facility Corporation under a loan agreement to refinance previous debt used to construct the School’s educational facilities. The School is obligated under a lease agreement to make monthly lease payments to the Facility Corporation for using the facilities. The Facility Corporation is required to make equal loan payments to the trustee, for payment of the bonds. Interest accrues at rates ranging from 2% to 4.75% per annum and is due semi-annually on April 1 and October 1. Principal payments are due annually on April 1, through 2030.

Future debt service requirements for the bonds are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 150,000 | \$ 126,487 | \$ 276,487 |
| 2019 | 155,000 | 120,487 | 275,487 |
| 2020 | 160,000 | 114,287 | 274,287 |
| 2021 | 165,000 | 107,888 | 272,888 |
| 2022 | 175,000 | 101,287 | 276,287 |
| 2023 - 2027 | 990,000 | 381,849 | 1,371,849 |
| 2028 - 2030 | <u>995,000</u> | <u>109,014</u> | <u>1,104,014</u> |
| Total | <u>\$ 2,790,000</u> | <u>\$ 1,061,299</u> | <u>\$ 3,851,299</u> |

NOTE 5: INTERFUND TRANSACTIONS

During the year ended June 30, 2017, the General Fund transferred \$270,874 to the Facility Corporation in accordance with the School’s lease agreement (See Note 4).

NOTE 6: 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.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: 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 7). The School's contributions to the SDTF for the year ended June 30, 2017, were \$480,800, 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 \$15,778,869, 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.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6: 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 0.0529956976%, which was an increase of 0.0029975691% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$3,481,172. 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 | \$ 193,499 | \$ 125 |
| Changes of assumptions and other inputs | 5,119,914 | 67,130 |
| Net difference between projected and actual earnings on plan investments | 495,494 | - |
| Changes in proportion | 648,031 | - |
| Contributions subsequent to the measurement date | <u>277,893</u> | <u>-</u> |
| Total | <u>\$ 6,734,831</u> | <u>\$ 67,255</u> |

School contributions subsequent to the measurement date of \$277,893 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 | \$ 2,699,586 |
| 2019 | 2,485,024 |
| 2020 | 1,199,808 |
| 2021 | <u>5,265</u> |
| Total | <u>\$ 6,389,683</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:

CHERRY CREEK ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: 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 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:

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6: 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 | <u>1.00%</u> | 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:

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6: 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>\$ 19,841,420</u> | <u>\$ 15,778,869</u> | <u>\$ 12,470,067</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 7: 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 \$25,225, \$23,316 and \$21,732, respectively, equal to the required amounts for each year.

NOTE 8: 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 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.

CHERRY CREEK ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established a reserve for emergencies 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 \$144,785.

REQUIRED SUPPLEMENTARY INFORMATION

CHERRY CREEK ACADEMY

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> | <u>12/31/13</u> |
|--|------------------|------------------|------------------|------------------|
| PROPORTIONATE SHARE OF THE NET PENSION LIABILITY | | | | |
| School's Proportion of the Net Pension Liability | 0.0529956976% | 0.0499981285% | 0.0477732603% | 0.0400724256% |
| School's Proportionate Share of the Net Pension Liability | \$ 15,778,869 | \$ 7,646,861 | \$ 6,474,881 | \$ 5,111,227 |
| School's Covered Payroll | \$ 2,378,537 | \$ 2,178,906 | \$ 2,001,357 | \$ 1,615,447 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 663% | 351% | 324% | 316% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 43% | 59% | 63% | 64% |
| | | | | |
| | <u>6/30/17</u> | <u>6/30/16</u> | <u>6/30/15</u> | <u>6/30/14</u> |
| SCHOOL CONTRIBUTIONS | | | | |
| Statutorily Required Contribution | \$ 454,784 | \$ 405,675 | \$ 359,814 | \$ 287,494 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(454,784)</u> | <u>(405,675)</u> | <u>(359,814)</u> | <u>(287,494)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School's Covered Payroll | \$ 2,473,019 | \$ 2,285,931 | \$ 2,130,551 | \$ 1,795,937 |
| Contributions as a Percentage of Covered Payroll | 18.39% | 17.75% | 16.89% | 16.01% |

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.

CHERRY CREEK ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| REVENUES | | | | |
| Local Sources | | | | |
| Per Pupil Revenue | \$ 3,927,124 | \$ 3,942,823 | \$ 3,956,754 | \$ 13,931 |
| Mill Levy Override | 433,683 | 572,086 | 572,086 | - |
| Tuition and Fees | 150,300 | 150,300 | 183,990 | 33,690 |
| Pupil Activities | 93,403 | 110,071 | 72,411 | (37,660) |
| Contributions and Donations | 163 | 1,091 | 7,244 | 6,153 |
| Grants | 18,000 | 21,000 | 21,000 | - |
| Investment Income | 6,000 | 6,000 | 9,396 | 3,396 |
| Miscellaneous | 31,589 | 15,705 | 3,239 | (12,466) |
| State Sources | | | | |
| Capital Construction Grant | 140,610 | 151,000 | 151,934 | 934 |
| Grants | 17,500 | 18,277 | 25,246 | 6,969 |
| TOTAL REVENUES | <u>4,818,372</u> | <u>4,988,353</u> | <u>5,003,300</u> | <u>14,947</u> |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Salaries | 1,886,220 | 1,944,117 | 1,885,752 | 58,365 |
| Benefits | 598,701 | 610,775 | 573,333 | 37,442 |
| Purchased Services | 336,355 | 367,214 | 366,902 | 312 |
| Supplies and Materials | 218,344 | 235,844 | 228,040 | 7,804 |
| Property | 129,047 | 124,475 | 123,609 | 866 |
| Total Instruction | <u>3,168,667</u> | <u>3,282,425</u> | <u>3,177,636</u> | <u>104,789</u> |
| Supporting Services | | | | |
| Salaries | 628,510 | 637,705 | 645,134 | (7,429) |
| Benefits | 180,645 | 182,781 | 177,656 | 5,125 |
| Purchased Services | 454,421 | 663,251 | 480,678 | 182,573 |
| Supplies and Materials | 92,800 | 92,800 | 90,671 | 2,129 |
| Other | 4,473 | 4,473 | 4,518 | (45) |
| Total Supporting Services | <u>1,360,849</u> | <u>1,581,010</u> | <u>1,398,657</u> | <u>182,353</u> |
| Reserves | <u>1,477,155</u> | <u>1,515,239</u> | <u>-</u> | <u>1,515,239</u> |
| TOTAL EXPENDITURES | <u>6,006,671</u> | <u>6,378,674</u> | <u>4,576,293</u> | <u>1,802,381</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (1,188,299) | (1,390,321) | 427,007 | 1,817,328 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | (273,668) | (273,668) | (270,874) | 2,794 |
| NET CHANGE IN FUND BALANCE | (1,461,967) | (1,663,989) | 156,133 | 1,820,122 |
| FUND BALANCE, Beginning | <u>1,461,967</u> | <u>1,663,989</u> | <u>1,663,989</u> | <u>-</u> |
| FUND BALANCE, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,820,122</u> | <u>\$ 1,820,122</u> |

See the accompanying Independent Auditors' Report.

CHERRY CREEK ACADEMY
BUDGETARY COMPARISON SCHEDULE
FACILITY CORPORATION
Year Ended June 30, 2017

| | ORIGINAL AND FINAL BUDGET | ACTUAL | VARIANCE Positive (Negative) |
|---|---------------------------------|-------------------|------------------------------------|
| REVENUES | | | |
| Local Sources | | | |
| Investment Income | \$ 3,000 | \$ 3,895 | \$ 895 |
| EXPENDITURES | | | |
| Debt Service | | | |
| Principal | 150,000 | 140,000 | 10,000 |
| Interest and Fiscal Charges | 127,288 | 132,673 | (5,385) |
| TOTAL EXPENDITURES | 277,288 | 272,673 | 4,615 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (274,288) | (268,778) | 5,510 |
| OTHER FINANCING SOURCES | | | |
| Transfers In | 276,738 | 270,874 | (5,864) |
| NET CHANGE IN FUND BALANCE | 2,450 | 2,096 | (354) |
| FUND BALANCE, Beginning | 419,861 | 417,928 | (1,933) |
| FUND BALANCE, Ending | <u>\$ 422,311</u> | <u>\$ 420,024</u> | <u>\$ (2,287)</u> |

See the accompanying Independent Auditors' Report.

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

Budgets and Budgetary Accounting

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

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

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

All budget appropriations lapse at fiscal year end.

The Board of Directors of the Facility Corporation approves an annual budget, which is presented in the financial statements.