

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2017



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CHALLENGE TO EXCELLENCE CHARTER SCHOOL

ROSTER OF SCHOOL OFFICIALS

June 30, 2017

GOVERNING COUNCIL

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

SCHOOL MANAGEMENT

Donna Mitchell, Principal

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Governing Council
Challenge to Excellence Charter School
Parker, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Challenge to Excellence Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School as of June 30, 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.

Ernst & Young LLP

September 25, 2017

Challenge to Excellence Charter School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2017

As management of Challenge to Excellence Charter School (C2E or the School), we offer readers of Challenge to Excellence Charter School's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal 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 ended June 30, 2017 is the fifteenth year of operations for C2E. As of June 30, 2017, net position decreased by \$(2,207,901) to \$(6,850,564). Challenge to Excellence Charter School's governmental fund reported an ending fund balance of \$1,931,980, an increase of \$118,082 from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was \$3,390,259.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's basic financial 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 School's finances, in a manner similar to a private-sector business.

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

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

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's

authorizer (Douglas County School District). The governmental activities of C2E include instruction and supporting services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

The School maintains one governmental fund, and adopts an annually appropriated budget for the fund. A budgetary comparison statement is included to demonstrate that spending did not exceed the budget.

Proprietary Funds

The School also maintains a proprietary fund to record the activity of the C2E Building Corporation (the "Corporation"). The Corporation was organized exclusively for the purpose of holding title to real estate and personal property for, and to make same available for use by, the School, and to otherwise provide facilities, equipment and other physical plant and related support to the School.

Notes to the Financial Statements

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

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2017, C2E's combined net position was \$(6,850,564). This position includes a net pension liability in the amount of \$13,205,120, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employee's Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. More information regarding the net pension liability may be found in the notes to the financial statements.

Of the School's total net position, \$(975,081) is invested in capital assets net of related debt, \$102,698 is restricted for debt service, and \$128,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Challenge to Excellence Charter School's Net Position

	2016-2017	2015-2016
ASSETS		
Cash and Investments	\$ 2,245,107	\$ 1,970,370
Restricted Cash and Investments	102,698	663,684
Accounts Receivable	305	1,404
Prepaid Expenses	9,815	5,763
Capital Assets, Not Being Depreciated	1,010,419	1,010,419
Capital Assets, Net of Accumulated Depreciation	3,554,076	3,779,546
TOTAL ASSETS	6,922,420	7,431,186
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	5,233,954	922,006
Loss on Debt Refunding, Net of Accumulated Amortization	236,180	245,932
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,470,134	1,167,938
LIABILITIES		
Accounts Payable	19,079	7,928
Retainage Payable	-	-
Accrued Liabilities	7,336	9,764
Accrued Salaries and Benefits	166,300	145,947
Unearned Revenue	500	
Accrued Interest Payable	-	25,253
Noncurrent Liabilities		
Due Within One Year	135,102	175,000
Due in More Than One Year	5,640,654	6,103,829
Net Pension Liability	13,205,120	6,654,262
TOTAL LIABILITIES	19,174,091	13,121,983
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	69,027	119,804
NET POSITION		
Net Investment in Capital Assets	(975,081)	(1,242,932)
Restricted for Debt Service	102,698	508,417
Restricted for Building Repairs	-	130,014
Restricted for Emergencies	128,000	125,000
Unrestricted	(6,106,181)	(4,163,162)
TOTAL NET POSITION	\$ (6,850,564)	\$ (4,642,663)

Challenge to Excellence Charter School's Change in Net Position

	2016-2017	2015-2016
REVENUES		
Per Pupil Revenue	\$ 3,390,259	\$ 3,360,361
Additional At-Risk Funding	-	446
District Mill Levy	260,864	263,268
Capital Construction	132,387	123,611
Charges for Services	439,604	358,515
Operating Grants and Contributions	18,292	16,168
Investment Income	13,233	4,495
Other	<u>7,118</u>	<u>9,527</u>
TOTAL REVENUE	<u>4,261,757</u>	<u>4,136,391</u>
EXPENSES		
Instruction	4,348,987	2,815,590
Supporting Services	1,518,935	1,139,990
Interest on Long-Term Debt	-	1,960
Building Corporation	<u>601,736</u>	<u>484,276</u>
TOTAL EXPENSES	<u>6,469,658</u>	<u>4,441,816</u>
CHANGE IN NET POSITION	(2,207,901)	(305,425)
NET POSITION, Beginning	<u>(4,642,663)</u>	<u>(4,337,238)</u>
NET POSITION, Ending	<u><u>\$ (6,850,564)</u></u>	<u><u>\$ (4,642,663)</u></u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$1,931,980, an increase of \$118,082 from the prior year. The School tracked its expenses against the budget, and added significant fund balance while delaying facility improvements including replacing significant amounts of carpet.

As of the end of the current fiscal year, the School's Proprietary Fund reported an ending net position of \$(871,143), an increase of \$601,507 from prior year. Contributed assets attributed to the increase in net position included assets that were previously held in the School's general fund.

General Fund Budgetary Highlights

C2E recognized \$46,894 more revenue than expected and spent \$1,316,962 less than appropriated (largely because a contingency put in place was not spent, as planned), when compared to the final budget. There were budget amendments during the year, which reflected changes in revenues and expenditures. Overall, revenue and expenses were reduced to account for fewer students than anticipated. The School saved significant funds in salaries and benefits and did not spend the contingency that was in the budget.

Capital Assets & Long-Term Debt

The School has invested in capital assets for the School's education facility and land. More information regarding capital assets may be found in Note 4 to the financial statements. Depreciation expenses for capital assets are booked under the Supporting Services program of the School's operations.

The School has long-term debt in the form a loan acquired at the close of the current year to refinance 2007 Charter School Revenue Refunding Bonds, the proceeds of which were used to refund Series 2004 Bonds, which were used by the Corporation to construct the School's educational facility. More information regarding long-term debt may be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Challenge to Excellence Charter School is student enrollment. Enrollment for the 2016-2017 school year was 476.80 funded students. Enrollment projected for 2017-2018 is 471.80 funded students. This factor was considered when preparing C2E's budget for 2017-2018.

Requests for Information

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

Challenge to Excellence Charter School
16995 E. Carlson Drive
Parker, CO 80134

BASIC FINANCIAL STATEMENTS

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 2,115,075	\$ 130,032	\$ 2,245,107
Restricted Cash and Investments	-	102,698	102,698
Accounts Receivable	305	-	305
Prepaid Expenses	9,815	-	9,815
Capital Assets, Not Being Depreciated	-	1,010,419	1,010,419
Capital Assets, Net of Accumulated Depreciation	128,792	3,425,284	3,554,076
TOTAL ASSETS	2,253,987	4,668,433	6,922,420
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	5,233,954	-	5,233,954
Loss on Debt Refunding, Net of Accumulated Amortization	-	236,180	236,180
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,233,954	236,180	5,470,134
LIABILITIES			
Accounts Payable	19,079	-	19,079
Accrued Liabilities	7,336	-	7,336
Accrued Salaries and Benefits	166,300	-	166,300
Unearned Revenues	500	-	500
Noncurrent Liabilities			
Due Within One Year	-	135,102	135,102
Due in More Than One Year	-	5,640,654	5,640,654
Net Pension Liability	13,205,120	-	13,205,120
TOTAL LIABILITIES	13,398,335	5,775,756	19,174,091
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	69,027	-	69,027
NET POSITION			
Net Investment in Capital Assets	128,792	(1,103,873)	(975,081)
Restricted for Debt Service	-	102,698	102,698
Restricted for Emergencies	128,000	-	128,000
Unrestricted	(6,236,213)	130,032	(6,106,181)
TOTAL NET POSITION	\$ (5,979,421)	\$ (871,143)	\$ (6,850,564)

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 4,348,987	\$ 331,722	\$ 18,292
Supporting Services	1,518,935	107,882	-
Total Governmental Activities	5,867,922	439,604	18,292
Business-Type Activities			
Building Corporation	601,736	-	-
TOTAL PRIMARY GOVERNMENT	\$ 6,469,658	\$ 439,604	\$ 18,292

GENERAL REVENUES

Per Pupil Revenue
 District Mill Levy
 Capital Construction
 Investment Income
 Other

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSES) REVENUES AND
CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (3,998,973)	\$ -	\$ (3,998,973)
<u>(1,411,053)</u>	<u>-</u>	<u>(1,411,053)</u>
<u>(5,410,026)</u>	<u>-</u>	<u>(5,410,026)</u>
<u>-</u>	<u>(601,736)</u>	<u>(601,736)</u>
<u>(5,410,026)</u>	<u>(601,736)</u>	<u>(6,011,762)</u>
3,390,259	-	3,390,259
260,864	-	260,864
132,387	-	132,387
12,961	272	13,233
7,118	-	7,118
<u>(1,202,971)</u>	<u>1,202,971</u>	<u>-</u>
<u>2,600,618</u>	<u>1,203,243</u>	<u>3,803,861</u>
(2,809,408)	601,507	(2,207,901)
<u>(3,170,013)</u>	<u>(1,472,650)</u>	<u>(4,642,663)</u>
<u>\$ (5,979,421)</u>	<u>\$ (871,143)</u>	<u>\$ (6,850,564)</u>

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2017

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 2,115,075
Accounts Receivable	305
Prepaid Expenditures	<u>9,815</u>
TOTAL ASSETS	<u><u>\$ 2,125,195</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 19,079
Accrued Liabilities	7,336
Accrued Salaries and Benefits	166,300
Unearned Revenues	<u>500</u>
TOTAL LIABILITIES	<u>193,215</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	9,815
Restricted for Emergencies	128,000
Unrestricted, Unassigned	<u>1,794,165</u>
TOTAL FUND BALANCE	<u>1,931,980</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,125,195</u></u>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,931,980
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	128,792
Long-term liabilities and related items, including net pension liability (\$13,205,120), pension-related deferred outflows of resources \$5,233,954, and pension-related deferred inflows of resources (\$69,027), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(8,040,193)</u>
Total Net Position of Governmental Activities	<u><u>\$ (5,979,421)</u></u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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

	<u>GENERAL</u>
REVENUES	
Local Sources	
Per Pupil Revenue	\$ 3,390,259
District Mill Levy	260,864
Student Fees and Extended Day Programs	439,604
Investment Income	12,961
Other	7,118
State Sources	
Capital Construction	132,387
Grants	18,292
 TOTAL REVENUES	 4,261,485
 EXPENDITURES	
Current	
Instruction	2,642,243
Supporting Services	1,501,160
 TOTAL EXPENDITURES	 4,143,403
 NET CHANGE IN FUND BALANCE	 118,082
 FUND BALANCE, Beginning	 1,813,898
 FUND BALANCE, Ending	 \$ 1,931,980

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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

Year Ended June 30, 2017

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

Net Change in Fund Balance of the Governmental Fund	\$ 118,082
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 (\$36,410) and and transfers (\$721,010) exceeded capital outlay \$18,063 in the current year.	(739,357)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$6,550,858), pension-related deferred outflows of resources \$4,311,948, and pension-related deferred inflows of resources \$50,777 in the current year.	<u>(2,188,133)</u>
Change in Net Position of Governmental Activities	<u>\$ (2,809,408)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET POSITION
PROPRIETARY FUND
 June 30, 2017

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 130,032
Restricted Cash and Investments	<u>102,698</u>
TOTAL CURRENT ASSETS	<u>232,730</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,010,419
Capital Assets, Net of Accumulated Depreciation	<u>3,425,284</u>
TOTAL NONCURRENT ASSETS	<u>4,435,703</u>
TOTAL ASSETS	<u>4,668,433</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>236,180</u>
LIABILITIES	
CURRENT LIABILITIES	
Loan Payable, Current Portion	135,102
NONCURRENT LIABILITIES	
Loan Payable	<u>5,640,654</u>
TOTAL LIABILITIES	<u>5,775,756</u>
NET POSITION	
Net Investment in Capital Assets	(1,103,873)
Restricted for Debt Service	102,698
Unrestricted	<u>130,032</u>
TOTAL NET POSITION	<u>\$ (871,143)</u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Revenue	\$ 481,961
TOTAL OPERATING REVENUES	<u>481,961</u>
OPERATING EXPENSES	
Depreciation	207,123
Debt Service	
Interest and Fiscal Charges	<u>294,023</u>
TOTAL OPERATING EXPENSES	<u>501,146</u>
NET OPERATING INCOME (LOSS)	<u>(19,185)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	272
Debt Issuance Costs	<u>(100,590)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(100,318)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(119,503)
CAPITAL CONTRIBUTIONS	
Contributed Capital Assets	<u>721,010</u>
CHANGE IN NET POSITION	601,507
NET POSITION, Beginning	<u>(1,472,650)</u>
NET POSITION, Ending	<u><u>\$ (871,143)</u></u>

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 481,961
Loan Interest and Fees Paid	(306,748)
Loan Principal Paid	<u>(175,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>213</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Loan Proceeds	5,775,756
Payment to Escrow Agent	(6,106,605)
Debt Issuance Costs Paid	<u>(100,590)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(431,439)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>272</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(430,954)
CASH AND CASH EQUIVALENTS, Beginning	<u>663,684</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 232,730</u></u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (19,185)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	207,123
Amortization of Premium	(1,135)
Amortization of Loss on Debt Refunding	13,663
Changes in Assets and Liabilities	
Accrued Interest Payable	(25,253)
Loan Payable	<u>(175,000)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 213</u></u>
NONCASH CAPITAL TRANSACTIONS	
Contributed Capital Assets	<u><u>\$ 721,010</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for 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 funds:

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

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

Assets, Liabilities and Net Position/Fund Balance

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

Unearned Revenues - Unearned revenues consist of grants received before eligibility requirements established by the provider have been met.

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

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

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Risk Management

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2017, the Corporation had a negative net position of \$871,143. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2017, follows:

Deposits	\$ 547,936
Investments	<u>1,799,869</u>
Total	<u>\$ 2,347,805</u>

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

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

Cash and Investments	\$ 2,245,107
Restricted Cash and Investments	<u>102,698</u>
Total	<u>\$ 2,347,805</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 \$301,216 collateralized with securities held by the financial institution's 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. The School's investment policy follows State statutes.

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

Fair Value Measurements - At June 30, 2017, the money market fund and the local government investment pool were measured 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.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

At June 30, 2017, the Corporation had \$232,730 invested in the Federated Treasury Obligations Fund, a money market fund rated AAAM by Standard and Poor's. The Fund invests in short-term U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities.

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 had \$1,567,139 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, 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, investments of \$102,698 have been restricted by the Corporation for debt service.

NOTE 4: 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, Being Depreciated				
Land Improvements	\$ 91,964	\$ -	\$ -	\$ 91,964
Building Improvements	935,915	-	935,915	-
Equipment	<u>190,757</u>	<u>18,063</u>	<u>-</u>	<u>208,820</u>
Total Capital Assets, Being Depreciated	<u>1,218,636</u>	<u>18,063</u>	<u>935,915</u>	<u>300,784</u>
Less Accumulated Depreciation				
Land Improvements	(9,196)	(9,196)	-	(18,392)
Building Improvements	(214,905)	-	(214,905)	-
Equipment	<u>(126,386)</u>	<u>(27,214)</u>	<u>-</u>	<u>(153,600)</u>
Total Accumulated Depreciation	<u>(350,487)</u>	<u>(36,410)</u>	<u>(214,905)</u>	<u>(171,992)</u>
Governmental Activities Capital Assets, Net	<u>\$ 868,149</u>	<u>\$ (18,347)</u>	<u>\$ 721,010</u>	<u>\$ 128,792</u>

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: 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	\$ 1,010,419	\$ -	\$ -	\$ 1,010,419
Capital Assets, Being Depreciated				
Buildings	4,754,070	-	-	4,754,070
Building Improvements	-	935,915	-	935,915
Total Capital Assets, Being Depreciated	<u>4,754,070</u>	<u>935,915</u>	<u>-</u>	<u>5,689,985</u>
Less Accumulated Depreciation				
Buildings	(1,842,673)	(158,469)	-	(2,001,142)
Building Improvements	-	(263,559)	-	(263,559)
Total Accumulated Depreciation	<u>(1,842,673)</u>	<u>(422,028)</u>	<u>-</u>	<u>(2,264,701)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,911,397</u>	<u>513,887</u>	<u>-</u>	<u>3,425,284</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,921,816</u>	<u>\$ 513,887</u>	<u>\$ -</u>	<u>\$ 4,435,703</u>

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

NOTE 5: 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>
Business-Type Activities					
2007 Building Loan	\$ 6,255,000	\$ -	\$ 6,255,000	\$ -	\$ -
Loan Premium	23,829	-	23,829	-	-
2017 Building Loan	<u>-</u>	<u>5,775,756</u>	<u>-</u>	<u>5,775,756</u>	<u>135,102</u>
Total	<u>\$ 6,278,829</u>	<u>\$ 5,775,756</u>	<u>\$ 6,278,829</u>	<u>\$ 5,775,756</u>	<u>\$ 135,102</u>

On June 30, 2017, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,775,756 Charter School Refunding Revenue Bonds, Series 2017. Bond proceeds were used to refund the Charter School Revenue Refunding Bonds, Series 2007. Proceeds of the refunded bonds were used to advance refund CECFA's outstanding Series 2004 Bonds, which were originally loaned to the Corporation to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the Corporation for using the facilities. The Corporation is required to make monthly loan payments to the trustee, for payment of the bonds. Interest accrues on the outstanding balance of the bonds at 3.48% per annum. Principal and interest payments are due monthly beginning August 1, 2017, with a balloon payment of \$3,970,706 due at maturity on December 1, 2027.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 5: LONG-TERM DEBT (Continued)

Bond proceeds and other resources, in the total amount of \$6,106,605, were deposited with an escrow agent to refund the Series 2007 Bonds. As a result, the refunded debt is considered defeased and the liability has been removed from the financial statements. Although the refunding resulted in the recognition of an accounting loss of \$236,180, the aggregate debt service payments were reduced by \$2,127,799, with an economic gain (difference between the present values of the old and new debt service payments) of \$605,007. The Series 2007 Bonds were called and paid in full on July 3, 2017.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 135,102	\$ 185,615	\$ 320,717
2019	152,253	196,563	348,816
2020	157,184	191,632	348,816
2021	163,350	185,466	348,816
2022	169,208	179,608	348,816
2023 - 2027	941,020	803,060	1,744,080
2028	<u>4,057,639</u>	<u>71,012</u>	<u>4,128,651</u>
Total	<u>\$ 5,775,756</u>	<u>\$ 1,812,956</u>	<u>\$ 7,588,712</u>

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**General Information** (Continued)

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 \$396,089, 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 \$13,205,120, 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.

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 0.0443513783%, which was an increase of 0.0008432407% from its proportion measured at December 31, 2015.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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)

For the year ended June 30, 2017, the School recognized pension expense of \$2,566,977. 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	\$ 164,026	\$ 112
Changes of assumptions and other inputs	4,284,786	58,417
Net difference between projected and actual earnings on plan investments	432,361	-
Changes in proportion	136,094	10,498
Contributions subsequent to the measurement date	<u>216,687</u>	<u>-</u>
Total	<u>\$ 5,233,954</u>	<u>\$ 69,027</u>

School contributions subsequent to the measurement date of \$216,687 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	\$ 1,984,031
2019	1,985,761
2020	974,044
2021	<u>4,404</u>
Total	<u>\$ 4,948,240</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:

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:

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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)

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
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	100.00%	

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:

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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 <u>(4.26%)</u>	Current Discount Rate <u>(5.26%)</u>	1% Increase <u>(6.26%)</u>
Proportionate share of the net pension liability	<u>\$ 16,605,015</u>	<u>\$ 13,205,120</u>	<u>\$ 10,436,030</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 the PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was \$20,824, \$20,009 and \$18,533, 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 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.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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 requirements of the Amendment. As required by the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2017, the emergency reserve was reported as restricted fund balance in the General Fund, in the amount of \$128,000.

REQUIRED SUPPLEMENTARY INFORMATION

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

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

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 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	0.0443513783%	0.0435081376%	0.0427827980%	0.0432178520%
School's Proportionate Share of the Net Pension Liability	\$ 13,205,120	\$ 6,654,262	\$ 5,798,506	\$ 5,512,425
School's Covered Payroll	\$ 1,990,568	\$ 1,896,362	\$ 1,792,291	\$ 1,742,249
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%
SCHOOL CONTRIBUTIONS				
Statutorily Required Contribution	\$ 375,265	\$ 347,700	\$ 306,721	\$ 279,088
Contributions in Relation to the Statutorily Required Contribution	<u>(375,265)</u>	<u>(347,700)</u>	<u>(306,721)</u>	<u>(279,088)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 2,041,567	\$ 1,961,651	\$ 1,817,034	\$ 1,745,725
Contributions as a Percentage of Covered Payroll	18.38%	17.72%	16.88%	15.99%

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

See the accompanying Independent Auditors' Report.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 3,444,941	\$ 3,395,101	\$ 3,390,259	\$ (4,842)
District Mill Levy	270,999	264,565	260,864	(3,701)
Student Fees and Extended Day Programs	362,000	402,860	439,604	36,744
Investment Income	-	-	12,961	12,961
Other	13,000	13,000	7,118	(5,882)
Total Local Sources	4,090,940	4,075,526	4,110,806	35,280
State Sources				
Capital Construction	120,672	118,926	132,387	13,461
Grants	-	20,139	18,292	(1,847)
Total State Sources	120,672	139,065	150,679	11,614
TOTAL REVENUES	4,211,612	4,214,591	4,261,485	46,894
EXPENDITURES				
Current				
Salaries	2,284,208	2,216,425	2,173,928	42,497
Benefits	856,275	828,638	718,475	110,163
Purchased Professional Services	62,152	110,652	112,321	(1,669)
Purchased Property Services	613,419	658,919	615,743	43,176
Other Purchased Services	263,625	268,125	269,172	(1,047)
Supplies and Materials	149,500	207,500	179,802	27,698
Property	195,000	77,500	67,742	9,758
Other	12,200	19,000	6,220	12,780
Contingency	1,141,598	1,073,606	-	1,073,606
TOTAL EXPENDITURES	5,577,977	5,460,365	4,143,403	1,316,962
NET CHANGE IN FUND BALANCE	(1,366,365)	(1,245,774)	118,082	1,363,856
FUND BALANCE, Beginning	1,853,231	1,813,898	1,813,898	-
FUND BALANCE, Ending	\$ 486,866	\$ 568,124	\$ 1,931,980	\$ 1,363,856

See the accompanying Independent Auditors' Report.

CHALLENGE TO EXCELLENCE 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

Budgets and Budgetary Accounting

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

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

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

All appropriations lapse at fiscal year end.