



NORTH ROUTH COMMUNITY CHARTER SCHOOL
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017



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CONTENTS

| | Page |
|---|------|
| <i>INDEPENDENT AUDITORS' REPORT</i> | 1 |
| <i>MANAGEMENT'S DISCUSSION AND ANALYSIS</i> | 3 |
| <i>BASIC FINANCIAL STATEMENTS</i> | |
| School-Wide Financial Statements: | |
| Statement of Net Position..... | 10 |
| Statement of Activities | 11 |
| Fund Financial Statements | |
| Balance Sheet – Governmental Funds..... | 12 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position..... | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds..... | 14 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 15 |
| Notes to the Financial Statements | 16 |
| <i>REQUIRED SUPPLEMENTARY INFORMATION</i> | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 32 |
| Schedule of Activity – Net Pension Liability..... | 33 |
| Schedule of Activity – Employer Pension Contributions | 34 |



INDEPENDENT AUDITOR'S REPORT

October 24, 2017

The Board of Directors
North Routt Community Charter School
Clark, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of North Routt Community Charter School (the School), a component unit of Steamboat Springs School District RE-2, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's 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 North Routt Community Charter School as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Board of Directors
North Routt Community Charter School
Page Two

Other Matters

Required Supplementary Information

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

Chadwick, Steinkirchner, Davis & Co., P.C.

**North Routt Community Charter School
Management's Discussion and Analysis
As of and for the fiscal year ended June 30, 2017**

As management of the North Routt Community Charter School, Routt County, Colorado (the School), we offer readers of the School's Annual Financial Report this narrative and analysis of the financial activities of the School for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the School exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2,546,372. Of this amount, the school has a negative *unrestricted net position* balance of \$(1,581,848).
- The School's total net position decreased by (\$550,051), with School-wide net position totaling \$2,546,372 at the end of the current fiscal year. The decrease is primarily due to the addition of Net Pension Obligation, per GASB #68, which indicates NRCCS's share of PERA's unfunded liability.
- As of the close of the current fiscal year, the School's governmental funds reported ending fund balances of \$120,175, a decrease of \$12,897 in comparison with the prior year. The decrease is mainly due to a prior year adjustment to align with GASB 34, which represents \$25,683 of the decrease. At the end of the current fiscal year, 1) unassigned Fund Balance for the general fund was \$75,675, \$1,310 less than last year, 2) the restricted Fund Balance for capital renewal grew by \$9,360, to \$44,500.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the School's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements presented on pages 10-31 is comprised of three components: 1) School-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

School-wide Financial Statements

The *School-wide financial statements* are designed to provide the reader of the School's financial statements a broad overview of the financial activities in a manner similar to a private sector business. The School-wide financial statements include the statement of net position and the statement of activities.

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

The *statement of activities* presents information showing how the net position of the School changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The School is a component unit of the Steamboat Springs School District. Financial information for the Charter School is presented separately from the primary government because the Charter School is financially accountable to the District and provides services to the School's students.

The School-wide financial statements can be found on pages 10-11.

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives.

Governmental funds account for essentially the same information reported in the *governmental activities* of the School-wide financial statements. However, unlike the School-wide statements, the 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. Such information may be useful in evaluating the financing requirements in the near term.

Since the *governmental funds* and the *governmental activities* report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, a reconciliation is provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The School maintains one governmental fund. It is the general fund and is presented as a standalone column in the fund financial statements.

The School adopts an annual appropriated budget for its governmental fund. A budgetary comparison schedule for the general fund is included in the fund financial statements to demonstrate compliance with the adopted budget.

The governmental fund financial statements can be found on pages 12-15.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 16-31 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains certain *required supplementary information* concerning the budget to actual comparison for the School's fund and schedules related to the School's pension plan. These statements can be found on pages 32-34.

School-wide Financial Analysis

School-wide Net Position

The assets of the School are classified as current assets and capital assets. Cash, investments, receivables, inventories and prepaid expenditures are current assets. These assets are available to provide resources for the near-term operations of the School. The majority of the current assets are cash and receivables.

Capital assets are used in the operations of the School. These assets are buildings and equipment. Capital assets are discussed in greater detail in the section titled, Capital Assets and Debt Administration, elsewhere in this analysis.

Current liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, interest payable, and current debt obligations. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal 2017.

Net pension liability and related deferrals all relate to the School's pension plan.

The assets and deferred outflows of the primary government activities exceed liabilities and deferred inflows by \$2,546,372 with an unrestricted net position deficit of (\$1,581,848). Total net position of the primary government does not include internal balances.

A net investment of \$4,140,550 in building, equipment, construction in progress, and vehicles represents 162.6% of the School's net position. The legally required TABOR reserve has been recorded by the School's chartering district.

The following table shows net position for fiscal years 2017, 2016, and 2015.

| North Routt Community Charter School | | | |
|---|----------------------|----------------------|--------------------|
| Condensed Statement of Net Position | | | |
| Governmental | | | |
| Activities | | | |
| | 6/30/2017 | 6/30/2016 | 6/30/2015 |
| Assets: | | | |
| Current Assets | \$210,662 | \$209,859 | \$166,191 |
| Capital Assets net of depreciation | <u>\$4,140,550</u> | <u>\$4,133,144</u> | <u>\$4,225,712</u> |
| Total assets | <u>\$4,351,212</u> | <u>\$4,343,003</u> | <u>\$4,391,903</u> |
| Deferred Outflows | \$1,214,950 | \$287,612 | \$89,585 |
| Liabilities: | | | |
| Current liabilities | \$90,487 | \$76,787 | \$93,794 |
| NonCurrent | <u>\$2,916,607</u> | <u>\$1,412,557</u> | <u>\$1,116,388</u> |
| Total liabilities | <u>\$3,007,094</u> | <u>\$1,489,344</u> | <u>\$1,210,182</u> |
| Deferred OutFlows | \$12,696 | \$19,165 | \$79 |
| Net position: | | | |
| Net investment in capital assets | \$4,083,720 | \$4,133,144 | \$4,194,582 |
| Restricted | \$44,500 | \$35,140 | \$26,140 |
| Unrestricted | <u>(\$1,581,848)</u> | <u>(\$1,046,178)</u> | <u>(\$949,495)</u> |
| Total net position | <u>\$2,546,372</u> | <u>\$3,122,106</u> | <u>\$3,271,227</u> |

School-wide Activities

School-wide activities decreased the net position of the School by (\$550,051), during the year ended June 30, 2017. The cause of this decline is due to increased net investment in capital assets and the School's portion of PERA's unfunded liability.

The following table shows the change in net position for fiscal years 2017, 2016, and 2015.

**North Rount Community Charter School
Condensed Statement of Changes in Net Position**

| | Governmental Activities | | |
|------------------------------------|------------------------------------|--------------------|--------------------|
| | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for services | \$104,395 | \$67,015 | \$83,390 |
| Operating grants and contributions | \$127,057 | \$132,771 | \$111,205 |
| Capital grants and contributions | \$26,100 | \$23,497 | \$14,085 |
| General Revenues: | | | |
| Per pupil funding | \$764,018 | \$732,205 | \$613,774 |
| Other income | \$0 | \$16 | \$0 |
| Investment earnings | \$0 | \$0 | \$0 |
| Total Revenues | <u>\$1,021,570</u> | <u>\$955,504</u> | <u>\$822,454</u> |
| Expenses | | | |
| Governmental activities | | | |
| Instruction | \$967,078 | \$683,093 | \$576,923 |
| Pupil support services | \$34,404 | \$17,208 | \$28,849 |
| Instructional staff services | \$28,157 | \$16,116 | |
| General administration | \$5,050 | \$2,745 | \$2,074 |
| School administration | \$197,395 | \$126,862 | \$122,548 |
| Business services | \$154,188 | \$109,250 | \$58,666 |
| Plant maintenance and operations | \$132,098 | \$121,120 | \$72,976 |
| Transportation | \$49,406 | \$25,163 | \$14,269 |
| Interest on Line of Credit | \$3,845 | \$3,068 | \$1,748 |
| Total expenses | <u>\$1,571,621</u> | <u>\$1,104,625</u> | <u>\$878,053</u> |
| Excess before transfers and other | -\$550,051 | -\$149,121 | -\$55,599 |
| Loss on sale of capital assets | \$0 | \$0 | \$0 |
| Change in net position | -\$550,051 | -\$149,121 | -\$55,599 |
| Change in Accounting Principle | -\$25,683 | | -\$924,800 |
| Beginning net position | <u>\$3,122,106</u> | <u>\$3,271,227</u> | <u>\$4,251,626</u> |
| Ending net position | <u>\$2,546,372</u> | <u>\$3,122,106</u> | <u>\$3,271,227</u> |

Financial Analysis of the School's Governmental Funds

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

The governmental funds of the School provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the School's financing requirements. Unassigned fund balance, in particular, measures the School's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the School. Student funded students during the fiscal year was 93.7, a slight increase from the previous year. This increase amounts to approximately \$20,000 in increases from the state’s School Finance Act funding.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- Actual revenues were \$97,983 higher than budgeted, primarily due to recording the “Loan Proceeds” related to the Bus purchase, which was not budgeted.
- Actual expenditures were \$69,534 below budget, primarily because the Contingency was budgeted and the bus purchase was not budgeted. Excluding those two items, expenses were lower than budget by \$31,316

Capital Assets and Debt Administration

The School’s investment in capital assets for its governmental activities as of June 30, 2017 increased to \$4,140,550 (net of accumulated depreciation). Capital assets include land improvements, building improvements, and equipment. Capital assets increased by .2%.

There were no major capital events during the year, other than the bus purchase.

**North Routt Community Charter School
Capital Assets (net of accumulated depreciation)
June 30, 2017**

| | Governmental Activities |
|-----------------------|----------------------------|
| Buildings & Equipment | \$4,016,109 |
| Vehicle | \$124,441 |
| | \$4,140,550 |

Additional information on the School’s capital assets can be found in Note C on page 21 of this report.

The School also has a loan payable to the Steamboat Springs School District in the amount of \$50,000, to cover the School’s negative fund balance. The loan has a repayment date of 6/30/2021 and no interest rate. The District also borrowed money for the purchase of a bus.

Additional information on the School’s long-term obligations can be found in Note D on page 21.

Economic Factors and Next Year's Budgets and Rates

Budget

Each year the School must plan for its future by reviewing the past, adjusting current activities and adopting the next year's budget. The current budget process is to examine and adjust all line with increases for cost of living, step and education level, when funding is adequate to accommodate increases, and School provided benefit cost increases for all approved staffing. This concept assumes existing staffing ratios are level and non-compensation budgets are continued to the next year unless specifically identified to change in the budget development process.

Requests for Information

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

Brandon LaChance, Executive Director
North Routt Community Charter School
26990 Eagle Lane
Clark, CO 80428

Complete financial statements for the Steamboat Springs School District may be obtained at the District's offices.

North Routt Community Charter School
STATEMENT OF NET POSITION
June 30, 2017

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 210,662 |
| Total current assets | 210,662 |
| Noncurrent assets | |
| Building | 4,349,485 |
| Furniture and equipment | 12,383 |
| Vehicles | 150,665 |
| Construction in progress | 14,582 |
| Less accumulated depreciation | (386,565) |
| Total noncurrent assets | 4,140,550 |
| Total assets | 4,351,212 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows of resources related to pensions | 1,214,950 |
| Total deferred outflows of resources | 1,214,950 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 2,968 |
| Accrued compensation | 85,202 |
| Unearned revenue | 2,317 |
| Total current liabilities | 90,487 |
| Noncurrent liabilities | |
| Due within one year | |
| Loans payable | 27,992 |
| Due in more than one year | |
| Net pension liability | 2,809,777 |
| Long-term loans payable | 78,838 |
| Total noncurrent liabilities | 2,916,607 |
| Total liabilities | 3,007,094 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | 12,696 |
| Total deferred inflows of resources | 12,696 |
| NET POSITION | |
| Net investment in capital assets | 4,083,720 |
| Restricted for construction | 44,500 |
| Unrestricted | (1,581,848) |
| Total net position | \$ 2,546,372 |

The notes to the financial statements are an integral part of this statement.

North Routt Community Charter School
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Change in Net Position |
|--|--------------------|-----------------------------|---|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities | | | | | |
| Instructional services | \$ 967,078 | \$ 65,557 | \$ 122,838 | \$ - | \$ (778,683) |
| Pupil support services | 34,404 | - | - | - | (34,404) |
| Instructional staff services | 28,157 | 5,963 | - | - | (22,194) |
| General administration | 5,050 | - | - | - | (5,050) |
| School administration | 197,395 | - | - | - | (197,395) |
| Business services | 154,188 | - | - | - | (154,188) |
| Maintenance and operations | 132,098 | 3,884 | 4,219 | 26,100 | (97,895) |
| Transportation | 49,406 | 28,991 | - | - | (20,415) |
| Interest | 3,845 | - | - | - | (3,845) |
| Total governmental activities | \$1,571,621 | \$ 104,395 | \$ 127,057 | \$ 26,100 | \$ (1,314,069) |
| General revenues: | | | | | |
| Per pupil funding | | | | | 764,018 |
| Total general revenues | | | | | <u>764,018</u> |
| Change in net position | | | | | (550,051) |
| Net position, beginning of year | | | | | 3,122,106 |
| Prior period adjustment | | | | | <u>(25,683)</u> |
| Restated net position, beginning of year | | | | | <u>3,096,423</u> |
| Net position, end of year | | | | | <u>\$ 2,546,372</u> |

The notes to the financial statements are an integral part of this statement.

**North Routt Community Charter School
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017**

| | | <u>General Fund</u> |
|--------------------------------------|-------------------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | | \$ 210,662 |
| | Total assets | <u>\$ 210,662</u> |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities | | |
| Accounts payable | | \$ 2,968 |
| Accrued salaries and benefits | | 85,202 |
| Unearned revenue | | <u>2,317</u> |
| | Total liabilities | 90,487 |
| Fund balances | | |
| Restricted for construction | | 44,500 |
| Unassigned | | <u>75,675</u> |
| | Total fund balances | <u>120,175</u> |
| | Total liabilities and fund balances | <u>\$ 210,662</u> |

The notes to the financial statements are an integral part of this statement.

North Routt Charter School
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2017

| | |
|---|----------------------------------|
| Total fund balances in governmental funds | \$ 120,175 |
| Amounts reported for governmental <i>activities</i> in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,527,115, and the accumulated depreciation is \$386,565. | 4,140,550 |
| Net pension obligations and the related deferred items are not financial resources and, therefore, are not reported in the funds. The assessed value of the net pension obligation is \$2,809,777, the deferred outflows total \$1,214,950 and the deferred inflows total \$12,696. | (1,607,523) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | <u>(106,830)</u> |
| Total net position in governmental activities | <u><u>\$2,546,372</u></u> |

The notes to the financial statements are an integral part of this statement.

North Routt Community Charter School
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

| | General Fund |
|--|-------------------------|
| REVENUES | |
| State sources | \$ 41,179 |
| Local and intermediate sources | 216,372 |
| Per pupil funding | 764,018 |
| Total revenues | 1,021,569 |
| EXPENDITURES | |
| Current | |
| Instruction services | 545,732 |
| Supporting services: | |
| Pupil support services | 18,304 |
| Instructional staff | 28,157 |
| General administration | 5,050 |
| School administration | 112,881 |
| Business services | 100,488 |
| Operations and maintenance | 75,559 |
| Transportation | 20,315 |
| Capital outlay | 145,283 |
| Debt service | |
| Principal | 48,049 |
| Interest | 3,845 |
| Total expenditures | 1,103,663 |
| Excess of revenues over (under) expenditures | (82,094) |
| Other financing sources | |
| Loan proceeds | 94,880 |
| Excess of revenues and other financing sources over (under) expenditures | 12,786 |
| Fund balance, beginning of year | 133,072 |
| Prior period adjustment | (25,683) |
| Restated fund balance, beginning of year | 107,389 |
| Fund balance, end of year | \$ 120,175 |

The notes to the financial statements are an integral part of this statement.

North Routt Community Charter School
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

| | |
|--|-----------------------------------|
| Total net change in fund balances of the governmental funds | \$ 12,786 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| In the governmental fund, expenditures for pensions are measured by the amount of financial resources used, whereas in the statement of activities, they are measured as the liability is accrued according to actuarial estimates. This is the amount the net pension liability (increased) decreased in the current year. | (523,413) |
| Proceeds from debt are revenues and payments on debt are expenditures in the funds. These amounts are increases or decreases in liabilities in the government-wide statements. This is the amount proceeds exceeded principal payments during the current year. (\$94,879-\$48,049) | (46,830) |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the period. (\$109,462 - \$102,056) | <u>7,406</u> |
| Change in net position of governmental activities | <u><u>\$ (550,051)</u></u> |

The notes to the financial statements are an integral part of this statement.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Routt Community Charter School (School) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

1. Reporting Entity

In conformance with Governmental Accounting and Finance Reporting Standards, the North Routt Community Charter School, Routt County, Clark, Colorado, is the reporting entity for financial reporting purposes. The School was incorporated as a Colorado nonprofit corporation in 2000 to operate a charter school. The School operates as a public school in accordance with Colorado Revised Statutes (CRS) and its program is open to students in grades kindergarten through eight.

The School operates under a charter school contract with the Steamboat Springs School District RE-2 (the District) pursuant to the Charter Schools Act, CRS 22-30.5. The School is considered a component unit of the District for the purpose of financial reporting.

In July 2015, the School entered into a renewed charter school contract with the District through June 30, 2020.

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's funds).

2. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by intergovernmental revenues. All of the School's activities are categorized as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants 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. Intergovernmental revenues and other items not properly included among program revenues are reported instead as *general revenues*.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting, and Basis of 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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The School reports the following major governmental funds:

The *general fund* is the School's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.

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

4. Assets, Liabilities and Net Position or Equity

Deposits

The School's cash consists of cash on hand and demand deposits.

Accounts Receivable

Accounts receivable consists primarily of reimbursements due from grantors and amounts due from charges for services provided. The School's management considers all receivables, if any, to be fully collectable at June 30, 2017. Therefore, the allowance for uncollectable accounts is \$0.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

North Rount Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------------------|--------------|
| Building and improvements | 50 |
| Vehicles | 10 |
| Equipment | 7 |

Accrued Salaries

Salaries and benefits to teachers and certain other employees are paid over a twelve-month period from September 1 to August 31, but are earned over a school year of approximately nine months. The salaries earned, but unpaid, at June 30, 2017 are reflected in the financial statements as an accrued liability.

Fund Equity

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)* to define the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable*, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a resolution approved by the School Board.
4. *Assigned* fund balance classifications are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed. Assigned fund balance allows the School Board to delegate the authority to spend to the executive director.
5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The School's General Fund balance consists of \$44,500 restricted for school construction, in compliance with the terms of the State BEST grant. The remaining balance of \$75,675 is classified as unassigned.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the School's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statute for all funds. During April, the Executive Director submits to the School Board a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the School Board to obtain taxpayer comments. Prior to June 30, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between departments within any fund and the reallocation of budget line items within any department within any fund rests with the Executive Director. Revisions that alter the total expenditures of any fund must be approved by the School Board. Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the School Board. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, scheduling of capital projects, and normal operating variances.

The School Board may authorize supplemental appropriations during the year. The School Board approved supplemental appropriations during the fiscal year ended June 30, 2017.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Pensions

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

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. However, Colorado State statutes govern the School's deposit of cash. The Public Deposit Protection Act (PDPA) for banks and savings and loans require state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Interest Rate Risk – The Colorado Revised Statute 24-75-601 limits investment maturities to five years or less, as a means of managing exposure to fair value loss resulting from increasing interest rates.

Credit Risk – State law limits investments for the School to U.S. treasury issues, other federally backed notes and credits, and other agency offerings. Other investment instruments including bank obligations, general obligation bonds, and commercial paper are limited to at least one of the highest rating categories of at least one nationally recognized rating agency. State law further limits investments in money market funds to those institutions with over \$1 billion in assets or the highest credit rating from one or more nationally recognized rating agencies.

The carrying amount of the School's deposits at June 30, 2017 was \$210,622 and bank balance was \$226,165. The bank balance at June 30, 2017 was covered by federal deposit insurance. Any differences between carrying and bank balances represent items that had not cleared the bank at year-end.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Buildings | \$ 4,349,485 | \$ - | \$ - | \$ 4,349,485 |
| Equipment | 12,383 | - | - | 12,383 |
| Transportation equipment | 55,785 | 94,880 | - | 150,665 |
| Construction in progress | <u>-</u> | <u>14,582</u> | <u>-</u> | <u>14,582</u> |
| Total | 4,417,653 | 109,462 | - | 4,527,115 |
| Less accumulated depreciation for: | | | | |
| Buildings | 260,969 | 86,989 | - | 347,958 |
| Equipment | 12,383 | - | - | 12,383 |
| Transportation equipment | <u>11,157</u> | <u>15,067</u> | <u>-</u> | <u>26,224</u> |
| Total | <u>284,509</u> | <u>102,056</u> | <u>-</u> | <u>386,565</u> |
| Total capital assets being depreciated, net | <u>\$ 4,133,144</u> | <u>\$ 7,406</u> | <u>\$ -</u> | <u>\$ 4,140,550</u> |

Depreciation expense of \$86,989 was charged to instructional services and \$15,067 was charged to transportation in the government-wide statements.

NOTE D - DEBT

The School entered into a \$60,000 unsecured loan payable with the Steamboat Springs School District. Proceeds from the loan were used to extinguish the School's ongoing fund balance deficit. The note agreement carries no interest rate and repayment terms were included in the latest renewal of the charter contract with the District.

The School entered into a promissory note dated March 7, 2016 of \$94,879 with interest at 5.20% per annum for the purchase of a bus. Payments are due annually of \$20,947, including interest, with the first payment due in advance and the final payment due June 2020. The note is collateralized by the bus.

During the period ended June 30, 2017, the following changes occurred in debt:

| | <u>Balance 6/30/16</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/17</u> |
|--------------|----------------------------|------------------|-------------------|----------------------------|
| Note payable | \$ 60,000 | \$ - | \$ 10,000 | \$ 50,000 |
| Bus loan | <u>-</u> | <u>94,879</u> | <u>38,049</u> | <u>56,830</u> |
| | <u>\$ 60,000</u> | <u>\$ 94,879</u> | <u>\$ 48,049</u> | <u>\$ 106,830</u> |

The School incurred aggregate interest expense of \$3,845 for the year ended June 30, 2017.

North Routt Community Charter School
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE D – DEBT – CONTINUED

Debt service requirements are as follows:

| <u>Maturity</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------|-------------------|-----------------|-------------------|
| 2018 | \$ 27,992 | \$ 2,955 | \$ 30,947 |
| 2019 | 28,927 | 2,020 | 30,947 |
| 2020 | 29,911 | 1,036 | 30,947 |
| 2021 | 10,000 | – | 10,000 |
| 2022 | 10,000 | – | 10,000 |
| Total | <u>\$ 106,830</u> | <u>\$ 6,011</u> | <u>\$ 112,841</u> |

NOTE E - PER PUPIL FUNDING

Per terms of the Charter School Contract with the District, the District provides funding to the School for 95% of the net District per pupil revenues, including Mill Levy Overrides, for each pupil enrolled in the School for which the District receives funding.

NOTE F - TAX, SPENDING, AND DEBT LIMITATION

In November of 1992, Colorado voters approved a State Constitutional amendment, referred to as the Taxpayer’s Bill of Rights (*TABOR*), containing tax, spending and debt limitations on the state and local governments. *TABOR* limits increases in revenues and expenditures to the rate of inflation and local growth. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of this Amendment. *TABOR* also requires local governments to establish emergency reserves to be used only for declared emergencies. The District has reserved the statutory 3% of the Charter School’s fund balance for the School.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, *TABOR* requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

NOTE G - CONTINGENCIES

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. Eligible employees of the Charter School are provided with pensions through the School Division Trust Fund (SCHDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

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

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

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

North Routt Community Charter School
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled. Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the Charter School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8% of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

| | For the Calendar Year Ended December 31, 2016 | For the Calendar Year Ended December 31, 2017 |
|--|--|---|
| Employer Contribution Rate¹ | 10.15% | 10.15% |
| Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹ | (1.02)% | (1.02)% |
| Amount Apportioned to the SCHDTF¹ | 9.13% | 9.13% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹ | 4.50% | 4.50% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹ | 4.50% | 5.00% |
| Total Employer Contribution Rate to the SCHDTF¹ | 18.13% | 18.63% |

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

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Charter School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Charter School were \$82,919 for the year ended June 30, 2017.

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

At June 30, 2017, the Charter School reported a liability of \$2,809,777 for its proportionate share of the net pension liability. The net pension liability was measured as of 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 Charter School's proportion of the net pension liability was based on the Charter School's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the Charter School's proportion was .009437%, which was an increase of .000593 from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the Charter School recognized pension expense of \$606,332. At June 30, 2017, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 35,127 | \$ 25 |
| Changes of assumptions or other inputs | 911,714 | 12,671 |
| Net difference between projected and actual earnings on pension plan investments | 93,953 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 129,753 | - |
| Contributions subsequent to the measurement date | 44,403 | - |
| Total | \$ 1,214,950 | \$ 12,696 |

\$44,403 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

North Routt Community Charter School
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

| Year ended June 30, 2017: | |
|---------------------------|---------|
| 2018 | 480,996 |
| 2019 | 460,638 |
| 2020 | 215,280 |
| 2021 | 937 |
| 2022 | - |
| Thereafter | - |

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.80 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.90 percent |
| Salary increases, including wage inflation | 3.90 - 10.10 percent |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.50 percent |
| Discount rate | 7.50 percent |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic) | 2.00 percent |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve |

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and were effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.40 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50 - 9.70 percent |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 5.26 percent |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic) | 2.00 percent |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve |

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

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

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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 pension plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

North Routt Community Charter School
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant for each major asset class.

These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | 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% | |

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

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 applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

North Routt Community Charter School
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE H - DEFINED BENEFIT PENSION PLAN - CONTINUED

- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the Charter School proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26% as of the measurement date, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26%) or 1-percentage-point higher (6.26%) than the current rate:

| | 1% Decrease (4.26%) | Current Discount Rate (5.26%) | 1% Increase (6.26%) |
|--|------------------------|-------------------------------------|------------------------|
| Proportionate share of the net pension liability | \$3,533,205 | \$2,809,777 | \$2,220,572 |

Pension Plan Fiduciary Net Position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

North Routt Community Charter School
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE I - POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description. The Charter School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investment/pera-financial-reports.

Funding Policy. The Charter School is required to contribute at a rate of 1.02% of PERA includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Charter School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the CRS, as amended. The Charter School contributions to HCTF for the years ended June 30, 2017, 2016, and 2015 were \$4,598, \$4,121, and \$3,437, respectively, equal to their required contributions for each year.

NOTE J – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The School has joined other schools in the Colorado School District Self Insurance Pool (CSDSIP), a public entity risk pool operating as a common risk management and insurance program for member Schools. The School pays an annual contribution to CSDSIP for its property and casualty insurance coverage. The agreement with CSDSIP provides that the pool will be financially self-sustaining through member contribution and additional assessments, if necessary. The pool will purchase excess insurance through commercial companies for members' claims in excess of a specified self-insured retention, which is determined each policy year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE K – PRIOR PERIOD ADJUSTMENT

The Charter School previously accrued salaries, but the related benefits were not accrued, as they were not considered material by management. In fiscal year 2017, School management determined that the associated benefits are now material and require accrual in the proper period. The result of the accrual of benefits to prior periods was a reduction in beginning net position and General Fund balance of (\$25,683), leaving a restated beginning net position of \$3,096,423 and beginning fund balance in the General Fund of \$107,389.

North Routt Community Charter School
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|--------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES AND OTHER SOURCES | | | | |
| State sources | \$ 43,613 | \$ 43,613 | \$ 41,179 | \$ (2,434) |
| Loan proceeds | - | - | 94,880 | 94,880 |
| Local and intermediate sources | 211,141 | 211,141 | 216,372 | 5,231 |
| Per pupil funding | 763,712 | 763,712 | 764,018 | 306 |
| Total revenues | 1,018,466 | 1,018,466 | 1,116,449 | 97,983 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction services | 562,629 | 565,617 | 545,732 | 19,885 |
| Pupil support services | 8,076 | 17,857 | 18,304 | (447) |
| Instructional staff | 33,724 | 31,100 | 28,157 | 2,943 |
| General administration | 5,000 | 5,000 | 5,050 | (50) |
| School administration | 104,253 | 109,461 | 112,881 | (3,420) |
| Business services | 58,617 | 96,391 | 100,488 | (4,097) |
| Operations and maintenance | 84,688 | 88,395 | 75,559 | 12,836 |
| Transportation | 22,403 | 23,245 | 20,315 | 2,930 |
| Capital outlay | 41,045 | 50,699 | 145,283 | (94,584) |
| Debt service | | | | |
| Principal | 21,360 | 52,360 | 48,049 | 4,311 |
| Interest | - | - | 3,845 | (3,845) |
| Contingency | - | 133,072 | - | 133,072 |
| Total expenditures | 941,795 | 1,173,197 | 1,103,663 | 69,534 |
| Excess of revenues over (under) expenditures | 76,671 | (154,731) | 12,786 | 167,517 |
| Fund balance, beginning of year | - | 133,072 | 133,072 | - |
| Prior period adjustment | - | - | (25,683) | (25,683) |
| Restated fund balance, beginning of year | - | 133,072 | 107,389 | (25,683) |
| Fund balance, end of year | \$ 76,671 | \$ (21,659) | \$ 120,175 | \$ 141,834 |

North Rount Community Charter School

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2017

| | Employer proportion of NPL | Employer proportionate share of NPL | Employer covered payroll | Employer proportionate share of NPL as a percentage of covered payroll | Pension plan's fiduciary net position as a percentage of total pension liability |
|---------------------------------|----------------------------------|---|--------------------------------|--|---|
| <u>Measurement date:</u> | | | | | |
| December 31, 2014 | 0.007794% | \$ 1,056,388 | \$ 327,508 | 323% | 63% |
| December 31, 2015 | 0.008844% | 1,352,557 | 385,153 | 351% | 59% |
| December 31, 2016 | 0.009437% | 2,809,777 | 423,554 | 663% | 43% |

North Routt Community Charter School

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2017

| | <u>Required employer contribution</u> | <u>Employer contributions recognized by the plan</u> | <u>Difference</u> | <u>Employer covered payroll</u> | <u>Contributions as a percentage of employer covered payroll</u> |
|---------------|---|--|-------------------|---|--|
| June 30, 2015 | \$ 55,946 | \$ 55,946 | \$ - | \$ 332,723 | 16.81% |
| June 30, 2016 | 71,641 | 71,641 | - | 403,646 | 17.75% |
| June 30, 2017 | 82,919 | 82,919 | - | 450,785 | 18.39% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26% based on the municipal bond index rate. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.