

BELLE CREEK CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2016

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Board of Directors
Belle Creek Charter School
Henderson, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Belle Creek Charter School, component unit of Brighton School District 27J, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Belle Creek Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Belle Creek Charter School as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Other Matters (Supplementary Information)

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



September 23, 2016

Belle Creek Charter School Management's Discussion and Analysis

Introduction

As management of the Belle Creek Charter School (the "School"), we offer readers of the School financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

Financial Highlights

Fiscal year ending June 30, 2016 is the second year reporting net pension liability and deferred inflows and outflows following Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. As such, the School included the Net Pension Liability per GASB Statement No. 68 in the amount of \$8,084,838 for FY 2016 and \$7,418,937 for FY 2015 as noncurrent liability on the Statement of Net Position. For FY 2016 and FY 2015, the liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows by \$6,065,876 and \$5,916,257 (net position), respectively.

At the close of the fiscal year the School's governmental fund reported an ending fund balance of \$1,852,747, an increase of \$196,042. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$4,733,299. The School also received \$23,922 in Mill Levy Override revenue.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

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

Belle Creek Charter School Management's Discussion and Analysis

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue (PPR) or property taxes passed through from the District (Brighton School District 27J). The governmental activities of the School include instruction and supporting services expense.

The government-wide financial statements can be found on pages 1-2 of this report.

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, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. 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. Such information may be useful in evaluating the School's near-term financing requirements.

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 individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund because it is considered to be a major fund.

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

Proprietary Fund. The Belle Creek Education Center is considered a component unit of the charter school, has one fund, an enterprise fund and is presented with a statement of net position, changes in net position and a statement of cash flows.

Fiduciary Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the School. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the School's own programs. The School maintains a student activity agency fund.

**Belle Creek Charter School
Management's Discussion and Analysis**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 9-20.

Government-wide Financial Analysis

The liabilities and deferred inflows of resources exceeded the School's assets and deferred outflows of resources by \$6,065,876 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$8,084,838, representing its proportionate share of the plan's net pension liability.

School's Net Position

Governmental and Business-Type Activities

| | June 30, 2016 | June 30, 2015 |
|--|----------------|----------------|
| Cash and Investments | \$2,127,544 | \$1,916,960 |
| Restricted Cash and Investments | 845,535 | 845,876 |
| Accounts Receivable & Prepaid Expenses | 106,178 | 147,817 |
| Capital Assets | 5,204,631 | 5,392,350 |
| Total Assets | 8,283,888 | 8,303,003 |
| Deferred Outflows of Resources | | |
| Loss on Debt Refunding, Net of Accumulated Amortization | 994,748 | 1,056,920 |
| Pensions, Net of Accumulated Amortization | 1,039,580 | 392,671 |
| Total Deferred Outflows of Resources | 2,034,328 | 1,449,591 |
| Current liabilities | 470,840 | 494,448 |
| Debt Service | 7,511,445 | 7,726,536 |
| Net Pension Liability | 8,084,838 | 7,418,937 |
| Total Liabilities | 16,067,123 | 15,639,921 |
| Deferred Inflows of Resources | | |
| Pensions, Net of Accumulated Amortization | 316,969 | 28,930 |
| Net position | | |
| Net Investment in Capital Assets | (1,219,425) | (1,178,835) |
| Restricted for Debt Service | 663,029 | 661,069 |
| Restricted for Building Repairs | 82,400 | 82,134 |
| Restricted for Special Education | 92,000 | 92,000 |
| Restricted for Emergencies | 154,000 | 145,000 |
| Unrestricted | (5,837,880) | (5,717,625) |
| Total Net Position | \$ (6,065,876) | \$ (5,916,257) |

**Belle Creek Charter School
Management's Discussion and Analysis**

A portion of the School's Governmental and Business-Type assets (35.9%) is in cash and investments and (62.8%) are net capital assets. As outlined in Note 6 to the financials the School participates in a Defined Benefit Pension Plan and has recorded a Net Pension Liability as of June 30, 2016 of \$8,084,838. This and the operating loss resulted in a negative Net Position of \$6,065,876. Of these funds \$154,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

School's Change in Net Position
For the Years Ended June 30, 2016 and 2015
Governmental and Business-Type Activities

| | June 30, 2016 | June 30, 2015 |
|---|-----------------------------|-----------------------------|
| Program Revenue: | | |
| Operating Grants and Contributions | \$ 218,754 | \$ 220,001 |
| Charges for Services | 13,187 | 13,623 |
| Total Program Revenues | <u>231,941</u> | <u>233,624</u> |
| General Revenue: | | |
| Per Pupil Revenue | 4,733,299 | 4,496,407 |
| Mill Levy Revenue | 23,922 | 23,314 |
| Capital Construction | 173,680 | 112,427 |
| Grants and Contributions Not Restricted | 7,119 | 11,973 |
| Investment Earnings | 8,364 | 2,834 |
| Other | 7,555 | 4,889 |
| Total General Revenues | <u>4,953,939</u> | <u>4,651,844</u> |
| Total Revenues | <u>5,185,880</u> | <u>4,885,468</u> |
| Expenses: | | |
| Current: | | |
| Instruction | 3,147,009 | 2,831,552 |
| Supporting Services | 1,572,641 | 1,507,492 |
| Education Center | 615,849 | 624,574 |
| Total Expenses | <u>5,335,499</u> | <u>4,963,618</u> |
| Increase (Decrease) in Net Position | (149,619) | (78,150) |
| Beginning Net Position, June 30 | (5,916,257) | 973,969 |
| Prior Period Adjustment | <u>0</u> | <u>(6,812,076)</u> |
| Ending Net Position, June 30 | <u><u>\$(6,065,876)</u></u> | <u><u>\$(5,916,257)</u></u> |

**Belle Creek Charter School
Management's Discussion and Analysis**

Financial Analysis of the School's Funds

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

Governmental Funds. The focus of the School's governmental fund 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, unrestricted, 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.

The School's enrollment is now at approximately the capacity of the building. Below are the historical enrollment numbers:

| Fiscal Year | Enrollment |
|-------------|------------|
| 2006 / 2007 | 648 |
| 2007 / 2008 | 650 |
| 2008 / 2009 | 681 |
| 2009 / 2010 | 675 |
| 2010 / 2011 | 668 |
| 2011 / 2012 | 699 |
| 2012 / 2013 | 694 |
| 2013 / 2014 | 691 |
| 2014 / 2015 | 699 |
| 2015 / 2016 | 707 |

The enrollment count for the 2016-17 school year is projected to be 699. This factor was considered in preparing the Academy's budget for fiscal year 2016-17. Currently there are no plans to increase enrollment since we are at the capacity of the facility. The economic outlook for FY 2017 is improving with the increase of \$115.81 per funded FTE or 1.6% in PPR funding. The Capital Construction funding per pupil allocation increased for FY 2017 to \$276 per funded FTE compared to \$255 per funded FTE in FY 2016.

As of the end of the current fiscal year, the School's general fund reported an ending fund balance of \$1,852,747.

Proprietary Fund. Belle Creek Education Center's net position decreased \$36,391 to a negative \$567,592 from negative \$531,201. The decrease is largely attributed to depreciation expense and amortization expense on the loss on refunding of the bonds. We anticipate the deficit will decrease as the debt is repaid in future years.

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The School approved a supplemental budget during the year to true up the beginning fund balance and adjust

**Belle Creek Charter School
Management's Discussion and Analysis**

to the actual student count. The original General Fund Budget was \$6,614,714 and it was adjusted to \$6,847,965. Total expenditures were less than budgeted expenditures by \$1,860,618.

Capital Asset and Debt Administration

Capital Assets. Including the building of the School and other General Fund assets, net capital assets were \$5,204,631. Depreciation expense of \$187,719 was reported for the building and other Governmental Activities capital assets.

Long-term Lease. The School participates in a long-term lease agreement with the Belle Creek Education Center. Monthly principal and interest payments are due under the lease agreement, with interest accruing at rates ranging from 4% to 5.42%. The lease ends in March 2037. Annual debt service ranges from \$567,664 to \$572,759 with payments that began in calendar year 2008.

Economic Factors and Next Year's Budget

The School is fortunate to have a solid fund balance to help weather budget cuts that the school may experience during this economic downturn. The FY 2016/2017 budget projects the School will have a decrease of approximately \$14,487 to the general fund ending fund balance. This is a planned decrease as the school utilizes a portion of the fund balance for current operations.

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's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Belle Creek Charter School, Rick Boos, Chief Financial Officer, 9290 E. 107th Ave., Henderson, Colorado 80640.

BASIC FINANCIAL STATEMENTS

BELLE CREEK CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|---|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Cash and Investments | \$ 2,127,544 | \$ - | \$ 2,127,544 |
| Restricted Cash and Investments | 82,400 | 763,135 | 845,535 |
| Accounts Receivable | 1,015 | - | 1,015 |
| Prepaid Expenses | 12,522 | 92,641 | 105,163 |
| Capital Assets, Net of Accumulated Depreciation | <u>11,196</u> | <u>5,193,435</u> | <u>5,204,631</u> |
| TOTAL ASSETS | <u>2,234,677</u> | <u>6,049,211</u> | <u>8,283,888</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Loss on Debt Refunding, Net of Accumulated Amortization | - | 994,748 | 994,748 |
| Pensions, Net of Accumulated Amortization | <u>1,039,580</u> | <u>-</u> | <u>1,039,580</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>1,039,580</u> | <u>994,748</u> | <u>2,034,328</u> |
| LIABILITIES | | | |
| Accounts Payable | 114,274 | - | 114,274 |
| Accrued Liabilities | 65,744 | - | 65,744 |
| Accrued Salaries and Benefits | 190,716 | - | 190,716 |
| Accrued Interest Payable | - | 100,106 | 100,106 |
| Noncurrent Liabilities | | | |
| Due Within One Year | - | 225,000 | 225,000 |
| Due in More Than One Year | - | 7,286,445 | 7,286,445 |
| Net Pension Liability | <u>8,084,838</u> | <u>-</u> | <u>8,084,838</u> |
| TOTAL LIABILITIES | <u>8,455,572</u> | <u>7,611,551</u> | <u>16,067,123</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions, Net of Accumulated Amortization | <u>316,969</u> | <u>-</u> | <u>316,969</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 11,196 | (1,230,621) | (1,219,425) |
| Restricted for Debt Service | - | 663,029 | 663,029 |
| Restricted for Building Repairs | 82,400 | - | 82,400 |
| Restricted for Special Education | 92,000 | - | 92,000 |
| Restricted for Emergencies | 154,000 | - | 154,000 |
| Unrestricted | <u>(5,837,880)</u> | <u>-</u> | <u>(5,837,880)</u> |
| TOTAL NET POSITION | <u>\$ (5,498,284)</u> | <u>\$ (567,592)</u> | <u>\$ (6,065,876)</u> |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | |
|---------------------------------|---------------------|---|--|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS |
| PRIMARY GOVERNMENT | | | |
| Governmental Activities | | | |
| Instruction | \$ 3,147,009 | \$ 13,187 | \$ 211,517 |
| Supporting Services | <u>1,572,641</u> | <u>-</u> | <u>7,237</u> |
| Total Governmental Activities | <u>4,719,650</u> | <u>13,187</u> | <u>218,754</u> |
| Business-Type Activities | | | |
| Education Center | <u>615,849</u> | <u>-</u> | <u>-</u> |
| TOTAL PRIMARY GOVERNMENT | \$ <u>5,335,499</u> | \$ <u>13,187</u> | \$ <u>218,754</u> |
| | | GENERAL REVENUES | |
| | | Per Pupil Revenue | |
| | | Additional At-Risk Funding | |
| | | District Mill Levy | |
| | | Capital Construction | |
| | | Grants and Contributions Not Restricted to Specific Programs | |
| | | Investment Income | |
| | | Miscellaneous | |
| | | TRANSFERS | |
| | | TOTAL GENERAL REVENUES AND TRANSFERS | |
| | | CHANGE IN NET POSITION | |
| | | NET POSITION, Beginning | |
| | | NET POSITION, Ending | |

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

NET (EXPENSE) REVENUE
AND CHANGE IN NET POSITION

| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|------------------------------|-----------------------------|------------------------------|
| \$ (2,922,305) | \$ - | \$ (2,922,305) |
| <u>(1,565,404)</u> | <u>-</u> | <u>(1,565,404)</u> |
| (4,487,709) | - | (4,487,709) |
| - | (615,849) | (615,849) |
| <u>(4,487,709)</u> | <u>(615,849)</u> | <u>(5,103,558)</u> |
| 4,733,299 | - | 4,733,299 |
| 3,327 | - | 3,327 |
| 23,922 | - | 23,922 |
| 173,680 | - | 173,680 |
| 7,119 | - | 7,119 |
| 5,873 | 2,491 | 8,364 |
| 4,228 | - | 4,228 |
| <u>(576,967)</u> | <u>576,967</u> | <u>-</u> |
| <u>4,374,481</u> | <u>579,458</u> | <u>4,953,939</u> |
| (113,228) | (36,391) | (149,619) |
| <u>(5,385,056)</u> | <u>(531,201)</u> | <u>(5,916,257)</u> |
| \$ <u><u>(5,498,284)</u></u> | \$ <u><u>(567,592)</u></u> | \$ <u><u>(6,065,876)</u></u> |

BELLE CREEK CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

| | <u>GENERAL</u> |
|--|-----------------------|
| ASSETS | |
| Cash and Investments | \$ 2,127,544 |
| Restricted Cash and Investments | 82,400 |
| Accounts Receivable | 1,015 |
| Prepaid Expenditures | 12,522 |
| TOTAL ASSETS | \$ 2,223,481 |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts Payable | \$ 114,274 |
| Accrued Liabilities | 65,744 |
| Accrued Salaries and Benefits | 190,716 |
| TOTAL LIABILITIES | 370,734 |
| FUND BALANCE | |
| Nonspendable Prepaid Expenditures | 12,522 |
| Restricted for Building Repairs | 82,400 |
| Restricted for Special Education | 92,000 |
| Restricted for Emergencies | 154,000 |
| Unrestricted, Unassigned | 1,511,825 |
| TOTAL FUND BALANCE | 1,852,747 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 2,223,481 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Total Fund Balance of the Governmental Fund | \$ 1,852,747 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 11,196 |
| Long-term liabilities and related items, including net pension liability (\$8,084,838), pension-related deferred outflows of resources \$1,039,580, and pension-related deferred inflows of resources (\$316,969), are not due and payable in the current year and, therefore, are not reported in governmental funds. | (7,362,227) |
| Total Net Position of Governmental Activities | \$ (5,498,284) |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
 Year Ended June 30, 2016

| | <u>GENERAL</u> |
|----------------------------|---------------------|
| REVENUES | |
| Local Sources | \$ 4,787,628 |
| State Sources | 337,275 |
| Federal Sources | <u>58,486</u> |
| TOTAL REVENUES | <u>5,183,389</u> |
| EXPENDITURES | |
| Instruction | 2,910,595 |
| Supporting Services | 1,499,785 |
| Building Lease | <u>576,967</u> |
| TOTAL EXPENDITURES | <u>4,987,347</u> |
| NET CHANGE IN FUND BALANCE | 196,042 |
| FUND BALANCE, Beginning | <u>1,656,705</u> |
| FUND BALANCE, Ending | <u>\$ 1,852,747</u> |

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

| | |
|--|---------------------|
| Net Change in Fund Balance of the Governmental Fund | \$ 196,042 |
| 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 amount represents depreciation expense in the current year. | (2,239) |
| 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 the net pension liability (\$665,901), pension-related deferred outflows of resources \$646,909, and pension-related deferred inflows of resources (\$288,039) in the current year. | <u>(307,031)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (113,228)</u> |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2016

| | <u>EDUCATION CENTER</u> |
|---|-----------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Restricted Cash and Investments | \$ 763,135 |
| Prepaid Expenses | <u>92,641</u> |
| TOTAL CURRENT ASSETS | 855,776 |
| NONCURRENT ASSETS | |
| Capital Assets, Net of Accumulated Depreciation | <u>5,193,435</u> |
| TOTAL ASSETS | <u>6,049,211</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Loss on Debt Refunding, Net of Accumulated Amortization | <u>994,748</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accrued Interest Payable | 100,106 |
| Loan Payable, Current Portion | <u>225,000</u> |
| TOTAL CURRENT LIABILITIES | 325,106 |
| NONCURRENT LIABILITIES | |
| Loan Payable | <u>7,286,445</u> |
| TOTAL LIABILITIES | <u>7,611,551</u> |
| NET POSITION | |
| Net Investment in Capital Assets | (1,230,621) |
| Restricted for Debt Service | <u>663,029</u> |
| TOTAL NET POSITION | <u>\$ (567,592)</u> |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
 Year Ended June 30, 2016

| | <u>EDUCATION CENTER</u> |
|-----------------------------|-----------------------------|
| OPERATING REVENUES | |
| Lease Revenue | \$ <u>576,967</u> |
| OPERATING EXPENSES | |
| Purchased Services | 13,833 |
| Depreciation | 185,480 |
| Debt Service | |
| Interest and Fees | <u>416,536</u> |
| TOTAL OPERATING EXPENSES | <u>615,849</u> |
| NET OPERATING INCOME (LOSS) | (38,882) |
| NONOPERATING REVENUES | |
| Investment Income | <u>2,491</u> |
| CHANGE IN NET POSITION | (36,391) |
| NET POSITION, Beginning | <u>(531,201)</u> |
| NET POSITION, Ending | <u><u>\$ (567,592)</u></u> |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2016

| | <u>EDUCATION CENTER</u> |
|--|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Lease Payments Received | \$ 576,967 |
| Loan Interest Paid | (352,022) |
| Loan Principal Paid | (220,000) |
| Cash Paid to Suppliers | <u>(8,043)</u> |
| Net Cash Provided (Used) by Operating Activities | (3,098) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment Earnings Received | <u>2,491</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (607) |
| CASH AND CASH EQUIVALENTS, Beginning | <u>763,742</u> |
| CASH AND CASH EQUIVALENTS, Ending | <u><u>\$ 763,135</u></u> |
| RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Net Operating Income (Loss) | \$ (38,882) |
| Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Depreciation Expense | 185,480 |
| Amortization of Discount | 4,909 |
| Amortization of Loss on Refunding | 62,172 |
| Changes in Assets and Liabilities | |
| Prepaid Expenses | 5,790 |
| Accrued Interest Payable | (2,567) |
| Loan Payable | <u>(220,000)</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ (3,098)</u></u> |

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

BELLE CREEK CHARTER SCHOOL

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2016

| | <u>STUDENT ACTIVITY</u> |
|-----------------------|-----------------------------|
| ASSETS | |
| Cash and Investments | \$ <u>29,238</u> |
| LIABILITIES | |
| Due to Student Groups | \$ <u>29,238</u> |

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

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Belle Creek Charter School (the “School”) was organized in 2003 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Brighton School District 27J (the “District”) in the State of Colorado.

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

Reporting Entity

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

The School includes the Belle Creek Education Center (the “Education Center”) within its reporting entity. The Education Center was formed to support and assist the School to perform its function or to carry out its purpose, specifically to assist in the financing and construction of the School’s facilities. The Education Center is blended into the School’s financial statements as an enterprise fund.

The School is a component unit of the District. The School’s charter is 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 nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including expenditures related to compensated absences, 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 ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

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.

The School reports one major proprietary fund, as follows:

Education Center - This fund is used to account for the financial transactions of the Education Center, primarily related to capital assets and the related debt service.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the School reports the following fund type:

The *Agency Fund* accounts for resources collected to support student activities. The School holds all resources in a purely custodial capacity.

Assets, Liabilities and Net Position/Fund Balance

Cash and Investments - Cash equivalents include investments with an original maturity of three months or less. Investments are reported at fair value. The local government investment pools are reported at the net asset value per share, which is measured using amortized cost.

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

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

| | |
|---------------------------|--------------|
| Building and Improvements | 40 years |
| Vehicles and Equipment | 5 - 10 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.

Compensated Absences - Employees of the School are allowed to accumulate unused vacation time and paid time off (PTO) up to a maximum of 60 hours. Upon termination of employment from the School, an employee will be compensated for the accrued vacation time and PTO at the rate of \$10 per hour. A liability for compensated absences is not reported in the financial statements because the amount is insignificant.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Risk Management

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

The School, in conjunction with Eagle Ridge Academy and Bromley East Charter School, has established a self-insurance plan for employee health benefits. The School's premiums are determined at the beginning of each plan year and are deposited into a claims account throughout the year. The School is not responsible for claims in excess of the premiums. The claims account is reported as cash with an offsetting liability in the General Fund. The plan's fiscal year ends each July 31, and included individual stop loss insurance of \$65,000 and aggregate stop loss insurance of \$1,000,000 for the fiscal year ending July 31, 2016.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2016, the Education Center had a negative net position of \$567,592. Management expects this deficit to be eliminated as the Education Center's debt is paid in future years.

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2016, consisted of the following:

| | |
|--------------|----------------------------|
| Cash on Hand | \$ 500 |
| Deposits | 546,626 |
| Investments | <u>2,455,191</u> |
| Total | <u>\$ 3,002,317</u> |

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

| | |
|----------------------------------|----------------------------|
| Cash and Investments | \$ 2,127,544 |
| Restricted Cash and Investments | 845,535 |
| Agency Fund Cash and Investments | <u>29,238</u> |
| Total | <u>\$ 3,002,317</u> |

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires 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, 2016, the School had bank deposits of \$380,281 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes an investment for a period in excess of five years. State statutes do not address custodial risk.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- 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

Local Government Investment Pools - At June 30, 2016, the School and the Education Center had \$2,322,313 and \$132,878, respectively, invested in the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (Colotrust), investment vehicles established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating the Pools. The Pools operate in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. The Pools are rated AAAM by Standard and Poor's. Investments of the Pools 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, 2016, the School held restricted cash and investments of \$82,400 for building repairs, as required by the building lease agreement. In addition, cash and investments of \$763,135 are restricted in the Education Center for future debt service.

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2016, are summarized below:

| | <u>Balances</u> 6/30/15 | <u>Additions</u> | <u>Deletions</u> | <u>Balances</u> 6/30/16 |
|-----------------------------------|----------------------------|-------------------|------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated | | | | |
| Vehicles and Equipment | \$ 123,871 | \$ - | \$ - | \$ 123,871 |
| Less Accumulated Depreciation | | | | |
| Vehicles and Equipment | <u>(110,436)</u> | <u>(2,239)</u> | <u>-</u> | <u>(112,675)</u> |
| Total Capital Assets, Net | <u>\$ 13,435</u> | <u>\$ (2,239)</u> | <u>\$ -</u> | <u>\$ 11,196</u> |

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

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 4: CAPITAL ASSETS (Continued)

| | <u>Balances</u> <u>6/30/15</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances</u> <u>6/30/16</u> |
|-----------------------------------|-----------------------------------|---------------------|------------------|-----------------------------------|
| Business-Type Activities | | | | |
| Capital Assets, Being Depreciated | | | | |
| Building and Improvements | \$ 7,419,195 | \$ - | \$ - | \$ 7,419,195 |
| Less Accumulated Depreciation | | | | |
| Building and Improvements | <u>(2,040,280)</u> | <u>(185,480)</u> | <u>-</u> | <u>(2,225,760)</u> |
| Total Capital Assets, Net | <u>\$ 5,378,915</u> | <u>\$ (185,480)</u> | <u>\$ -</u> | <u>\$ 5,193,435</u> |

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2015:

| | <u>Balances</u> <u>6/30/15</u> | <u>Additions</u> | <u>Payments</u> | <u>Balances</u> <u>6/30/16</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------------|-----------------------------------|------------------|-------------------|-----------------------------------|--------------------------------------|
| Business-Type Activities | | | | | |
| 2007 Building Loan | \$ 7,810,000 | \$ - | \$ 220,000 | \$ 7,590,000 | \$ 225,000 |
| Discount | <u>(83,464)</u> | <u>-</u> | <u>(4,909)</u> | <u>(78,555)</u> | <u>-</u> |
| Total | <u>\$ 7,726,536</u> | <u>\$ -</u> | <u>\$ 215,091</u> | <u>\$ 7,511,445</u> | <u>\$ 225,000</u> |

On June 14, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$9,200,000 Charter School Revenue Refunding Bonds, Series 2007A, and \$100,000 Taxable Charter School Revenue Bonds, Series 2007B, to advance refund CECFA's outstanding Series 2002 Bonds. Proceeds of the Series 2002 Bonds were loaned to the Education Center under a lease agreement to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the Education Center for use of the building. The Education Center is required to make equal loan payments to the Trustee, for payment of the Series 2007 Bonds. Monthly principal and interest payments are due under the agreements, with interest accruing at rates ranging from 4% to 5.42%. The bonds mature in March, 2037.

Future debt service requirements are as follows.

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|----------------------|
| 2017 | \$ 225,000 | \$ 343,221 | \$ 568,221 |
| 2018 | 235,000 | 334,221 | 569,221 |
| 2019 | 245,000 | 324,586 | 569,586 |
| 2020 | 255,000 | 314,296 | 569,296 |
| 2021 | 265,000 | 303,459 | 568,459 |
| 2022 - 2026 | 1,530,000 | 1,326,269 | 2,856,269 |
| 2027 - 2031 | 1,905,000 | 946,919 | 2,851,919 |
| 2032 - 2036 | 2,385,000 | 466,785 | 2,851,785 |
| 2037 | <u>545,000</u> | <u>25,206</u> | <u>570,206</u> |
| Total | <u>\$ 7,590,000</u> | <u>\$ 4,384,962</u> | <u>\$ 11,974,962</u> |

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

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 2015 and 2016 was 18.35% and 19.15% 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, 2016, were \$439,967, equal to the required contributions.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2016, the School reported a net pension liability of \$8,084,838, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0528617935%, which was a decrease of 0.0018769386% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$725,198. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 106,761 | \$ 349 |
| Changes of assumptions and other inputs | | 114,253 |
| Net difference between projected and actual earnings on plan investments | 691,826 | - |
| Changes in proportion | - | 202,367 |
| Contributions subsequent to the measurement date | 240,993 | - |
| Total | \$ 1,039,580 | \$ 316,969 |

School contributions subsequent to the measurement date of \$240,993 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,

| | |
|-------|-------------------|
| 2017 | \$ 100,180 |
| 2018 | 103,395 |
| 2019 | 137,076 |
| 2020 | 140,967 |
| Total | \$ 481,618 |

Actuarial Assumptions - The actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

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)

| | |
|---|--------------|
| Price inflation | 2.8% |
| Real wage growth | 1.1% |
| Wage inflation | 3.9% |
| Salary increases, including wage inflation | 3.9% - 10.1% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.5% |
| Future post-retirement benefit increases: | |
| Hired prior to 1/1/07 | 2% |
| Hired after 12/31/06 | 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.

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

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 presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>10 Year Expected Geometric Real Rate of Return</u> |
|---------------------------------|--------------------------|---|
| U.S. Equity - Large Cap | 26.76% | 5.00% |
| U.S. Equity - Small Cap | 4.40% | 5.19% |
| Non U.S. Equity - Developed | 22.06% | 5.29% |
| Non U.S. Equity - Emerging | 6.24% | 6.76% |
| Core Fixed Income | 24.05% | 0.98% |
| High Yield | 1.53% | 2.64% |
| Long Duration Government/Credit | 0.53% | 1.57% |
| Emerging Market Bonds | 0.43% | 3.04% |
| Real Estate | 7.00% | 5.09% |
| Private Equity | 7.00% | 7.15% |
| Total | <u><u>100.00%</u></u> | |

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

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)

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. 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 those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

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 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------------|------------------------------------|----------------------------|
| Proportionate share of the net pension liability | <u>\$ 10,480,313</u> | <u>\$ 8,084,838</u> | <u>\$ 6,092,250</u> |

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

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

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

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$23,935, \$23,118 and \$23,021, respectively, equal to the required amounts for each year.

BELLE CREEK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016, 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.

Special Education

The School is required by its charter contract with the District to establish a special education reserve equal to \$2,000 per special education pupil enrolled at the School. At June 30, 2016, this reserve, in the amount of \$92,000, was reported as restricted fund balance in the General Fund.

Tabor Amendment

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$154,000.

REQUIRED SUPPLEMENTARY INFORMATION

BELLE CREEK 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, 2016

| | <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 | 0.0528617935% | 0.0547387321% | 0.0550435906% |
| School's Proportionate Share of the Net Pension Liability | \$ 8,084,838 | \$ 7,418,937 | \$ 7,020,795 |
| School's Covered-Employee Payroll | \$ 2,303,706 | \$ 2,292,554 | \$ 2,216,173 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 351% | 324% | 317% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 59% | 63% | 64% |
| | <u>6/30/16</u> | <u>6/30/15</u> | <u>6/30/14</u> |
| SCHOOL CONTRIBUTIONS | | | |
| Statutorily Required Contribution | \$ 416,031 | \$ 388,436 | \$ 362,406 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(416,031)</u> | <u>(388,436)</u> | <u>(362,406)</u> |
| Contribution Deficiency (Excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| School's Covered-Employee Payroll | \$ 2,346,582 | \$ 2,300,460 | \$ 2,267,473 |
| Contributions as a Percentage of Covered-Employee Payroll | 17.73% | 16.89% | 15.98% |

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.

BELLE CREEK CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | VARIANCE Positive (Negative) |
|-----------------------------------|----------------------------|-------------------------|---------------------|------------------------------------|
| REVENUES | | | | |
| Local Sources | | | | |
| Per Pupil Revenue | \$ 4,676,546 | \$ 4,725,257 | \$ 4,733,299 | \$ 8,042 |
| District Mill Levy | 22,000 | 23,314 | 23,922 | 608 |
| Student Fees | 13,750 | 13,143 | 13,187 | 44 |
| Contributions | 1,000 | 1,000 | 7,119 | 6,119 |
| Investment Income | 1,400 | 2,000 | 5,873 | 3,873 |
| Miscellaneous | 900 | 2,600 | 4,228 | 1,628 |
| Total Local Sources | <u>4,715,596</u> | <u>4,767,314</u> | <u>4,787,628</u> | <u>20,314</u> |
| State Sources | | | | |
| Additional At-Risk Funding | - | - | 3,327 | 3,327 |
| Capital Construction | 166,250 | 171,462 | 173,680 | 2,218 |
| Grants | 149,261 | 180,821 | 160,268 | (20,553) |
| Total State Sources | <u>315,511</u> | <u>352,283</u> | <u>337,275</u> | <u>(15,008)</u> |
| Federal Sources | | | | |
| Grants | 72,021 | 71,663 | 58,486 | (13,177) |
| TOTAL REVENUES | <u>5,103,128</u> | <u>5,191,260</u> | <u>5,183,389</u> | <u>(7,871)</u> |
| EXPENDITURES | | | | |
| Salaries | 2,658,470 | 2,601,747 | 2,522,697 | 79,050 |
| Employee Benefits | 931,662 | 992,256 | 968,831 | 23,425 |
| Purchased Services | 741,877 | 809,108 | 751,201 | 57,907 |
| Supplies and Materials | 125,600 | 127,202 | 97,714 | 29,488 |
| Property | 85,000 | 117,178 | 65,184 | 51,994 |
| Other | 12,900 | 13,508 | 4,753 | 8,755 |
| Building Lease | 579,500 | 579,500 | 576,967 | 2,533 |
| Appropriated Reserves | 1,479,705 | 1,607,466 | - | 1,607,466 |
| TOTAL EXPENDITURES | <u>6,614,714</u> | <u>6,847,965</u> | <u>4,987,347</u> | <u>1,860,618</u> |
| NET CHANGE IN FUND BALANCE | <u>(1,511,586)</u> | <u>(1,656,705)</u> | <u>196,042</u> | <u>1,852,747</u> |
| FUND BALANCE, Beginning | <u>1,511,586</u> | <u>1,656,705</u> | <u>1,656,705</u> | <u>-</u> |
| FUND BALANCE, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,852,747</u> | <u>\$ 1,852,747</u> |

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The School is required by State statutes to adopt a budget on a basis consistent with generally accepted accounting principles. The Education Center is not required to adopt a budget.

The School adheres to the following procedures in establishing the budgetary information reflected in the financial statements.

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

SUPPLEMENTARY INFORMATION

BELLE CREEK CHARTER SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
STUDENT ACTIVITY FUND
Year Ended June 30, 2016

| | <u>BALANCE</u> <u>6/30/15</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>BALANCE</u> <u>6/30/16</u> |
|-----------------------|----------------------------------|------------------|-------------------|----------------------------------|
| ASSETS | | | | |
| Cash and Investments | \$ <u>31,305</u> | \$ <u>77,166</u> | \$ <u>79,233</u> | \$ <u>29,238</u> |
| LIABILITIES | | | | |
| Due to Student Groups | \$ <u>31,305</u> | \$ <u>77,166</u> | \$ <u>79,233</u> | \$ <u>29,238</u> |

See the accompanying Independent Auditors' Report.

BELLE CREEK CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE
STUDENT ACTIVITY FUND
 Year Ended June 30, 2016

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE Positive (Negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| REVENUES | | | | |
| Student Groups | \$ 88,950 | \$ 97,000 | \$ 77,166 | \$ (19,834) |
| EXPENDITURES | | | | |
| Student Groups | 88,950 | 97,000 | 79,233 | 17,767 |
| NET CHANGE IN DUE TO STUDENT GROUPS | - | - | (2,067) | (2,067) |
| DUE TO STUDENT GROUPS, Beginning | 25,000 | 31,305 | 31,305 | - |
| DUE TO STUDENT GROUPS, Ending | <u>\$ 25,000</u> | <u>\$ 31,305</u> | <u>\$ 29,238</u> | <u>\$ (2,067)</u> |

See the accompanying Independent Auditors' Report.