

Pinnacle Charter School, Inc.

**Financial Statements and Supplementary
Information**

For the Year Ended June 30, 2015

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Table of Contents

<u>INTRODUCTORY SECTION</u>	<u>Page(s)</u>
Roster of School Officials	i
 <u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 6
 <u>Basic Financial Statements:</u>	
<u>Government-wide Financial Statements:</u>	
Statement of Net Position	7
Statement of Activities	8
 <u>Fund Financial Statements:</u>	
Balance Sheet – Governmental Fund	9
Reconciliation of the Governmental Fund Balance Sheet with the Government-wide Statement of Net Position	10
Statement of Revenues, Expenditures and Change in Fund Balance – Governmental Fund	11
Statement of Net Position – Proprietary Funds	12
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Statement of Fiduciary Net Position – Student Activity Fund	15
Notes to Financial Statements	16 – 32
 <u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule – General Fund	33
Schedule of the School's Proportionate Share of the Net Pension Liability	34
Schedule of School Contributions	35
 <u>Other Information:</u>	
Budgetary Comparison Schedule – Building Corporation	36
Budgetary Comparison Schedule – Property Corporation	37
Statement of Changes in Assets and Liabilities – Student Activity Fund	38
Budgetary Comparison Schedule – Student Activity Fund	39

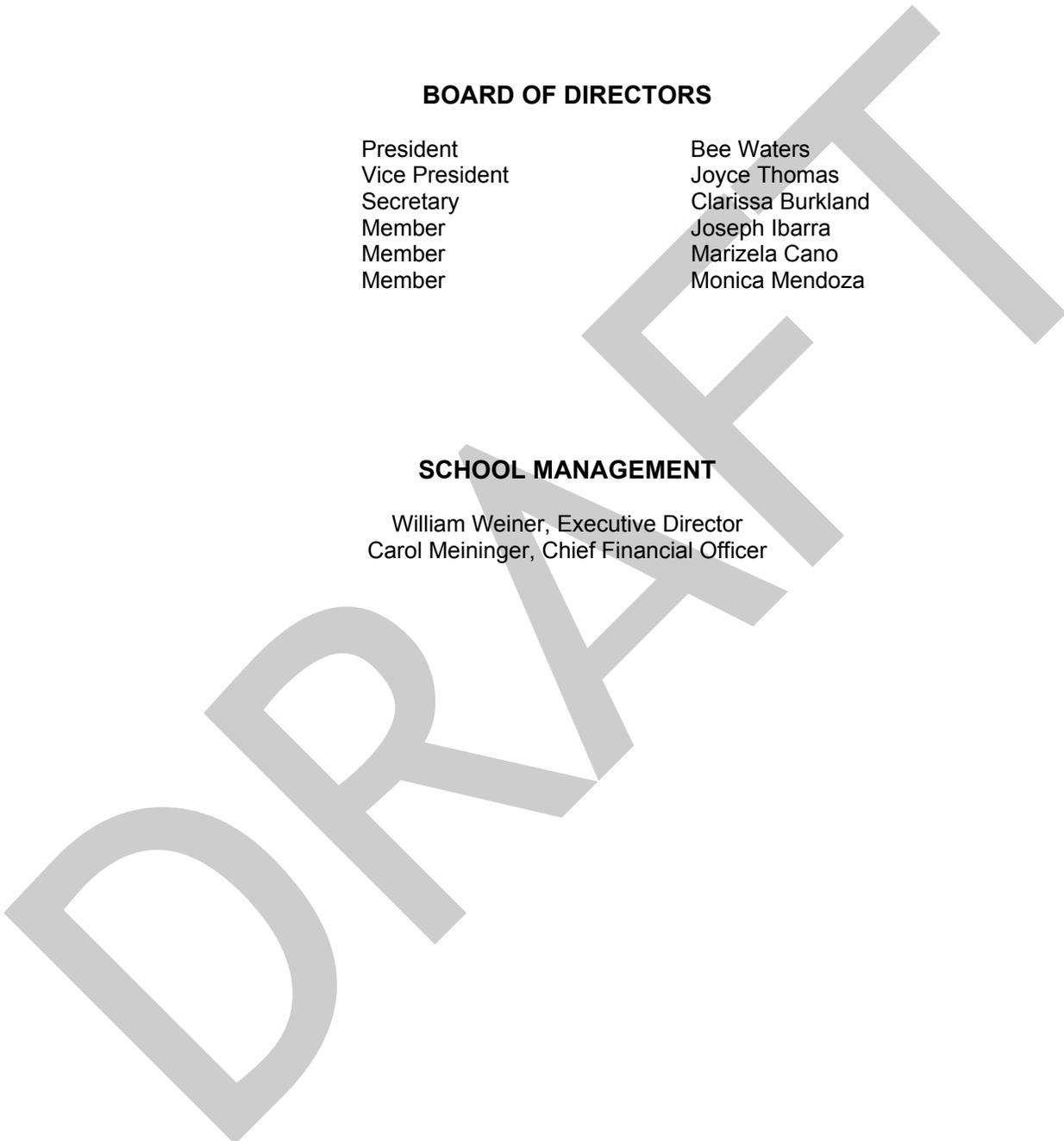
**Pinnacle Charter School, Inc.
Roster of School Officials
June 30, 2015**

BOARD OF DIRECTORS

President	Bee Waters
Vice President	Joyce Thomas
Secretary	Clarissa Burkland
Member	Joseph Ibarra
Member	Marizela Cano
Member	Monica Mendoza

SCHOOL MANAGEMENT

William Weiner, Executive Director
Carol Meininger, Chief Financial Officer





Independent Auditor's Report

Board of Directors
Pinnacle Charter School, Inc.
Federal Heights, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pinnacle Charter School, Inc. (the "School"), as of June 30, 2015, and for the year ended, 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 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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pinnacle Charter School, Inc., as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 3 to the basic financial statements, the School has changed its method for accounting and reporting pension plans during 2015 due to the adoption of Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27." The adoption of the standard required retrospective application resulting in a \$ 23,163,893 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, budgetary comparison information on page 33, Schedule of the School's Proportionate Share of the Net Pension Liability on page 34, and Schedule of School Contributions on page 35 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The budgetary comparison information and schedule of changes in assets and liabilities - student activities fund on pages 36 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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. Such 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 such 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Greeley, Colorado
September 30, 2015

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BASIC FINANCIAL STATEMENTS

Pinnacle Charter School, Inc.
Statement of Net Position
June 30, 2015

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 7,457,885
Restricted cash and investments	2,735,858
Accounts receivable - Charter School Institute	342,183
Other receivables	2,454
Inventories	24,637
Prepaid items	15,948
Capital assets, not depreciated	2,828,600
Capital assets, depreciated, net	22,576,856
<u>Total assets</u>	35,984,421
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred loss on refunding	1,109,320
Contributions subsequent to measurement date	764,437
Change in investment earnings	607,185
Change in proportionate share	750,282
<u>Total deferred outflows of resources</u>	3,231,224
<u>LIABILITIES</u>	
Accounts payable	48,678
Accrued salaries and benefits	780,659
Accrued interest payable	110,700
Noncurrent liabilities:	
Due within one year	740,000
Due in more than one year	28,588,440
Net pension liability	26,403,085
<u>Total liabilities</u>	56,671,562
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Change in experience	1,971
<u>Total deferred inflows of resources</u>	1,971
<u>NET POSITION</u>	
Net investment in capital assets	(2,813,664)
Restricted for:	
Emergencies	504,600
Debt service	2,535,625
Repair and replacement	200,233
Unrestricted	(17,884,682)
<u>Total net position</u>	\$ (17,457,888)

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

Pinnacle Charter School, Inc.
Statement of Activities
For the Year Ended June 30, 2015

	Program Revenues				Net Revenue (Expense) and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental activities</u>					
Instruction	\$ 8,899,094	\$ 197,372	\$ 1,408,700	\$ -	\$ (7,293,022)
Supporting services	7,658,600	492,825	738,146	356,446	(6,071,183)
Interest on long-term debt	1,424,467	-	-	-	(1,424,467)
<u>Total governmental activities/primary government</u>	<u>\$ 17,982,161</u>	<u>\$ 690,197</u>	<u>\$ 2,146,846</u>	<u>\$ 356,446</u>	(14,788,672)
<u>General revenues</u>					
Per pupil revenue					14,806,636
Earnings on investments					7,501
Other					106,506
					<u>14,920,643</u>
Total general revenues					14,920,643
Change in net position					131,971
Net position at beginning of year					5,574,034
Cumulative effect of change in accounting principle and restatement - See Note 3					<u>(23,163,893)</u>
Net position at end of year					<u>\$ (17,457,888)</u>

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

Pinnacle Charter School, Inc.
Balance Sheet
Governmental Fund
June 30, 2015

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and investments	\$ 7,457,885
Accounts receivable - Charter School Institute	342,183
Other Receivables	2,454
Inventory	24,637
Prepaid items	15,948
Due from other funds	3,185
	<u>7,846,292</u>
<u>Total assets</u>	<u>\$ 7,846,292</u>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>Liabilities</u>	
Accounts payable	\$ 48,678
Accrued salaries and benefits	780,659
Due to other funds	88,195
	<u>917,532</u>
<u>Total liabilities</u>	<u>917,532</u>
<u>Fund balance</u>	
Nonspendable for inventory	24,637
Nonspendable for prepaid items	15,948
Restricted for emergencies	504,600
Assigned for capital projects	3,500,000
Assigned for fund balance reserve	525,000
Assigned for food service operations	63,596
Assigned for grants	303
Unassigned	2,294,676
	<u>6,928,760</u>
<u>Total fund balance</u>	<u>6,928,760</u>
<u>Total liabilities and fund balance</u>	<u>\$ 7,846,292</u>

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

Pinnacle Charter School, Inc.
Reconciliation of the Governmental Fund Balance Sheet
with the Government-wide Statement of Net Position
June 30, 2015

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental fund		\$ 6,928,760
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental fund financial statements.		
Cost of capital assets	\$ 3,861,449	
Accumulated depreciation	<u>(1,814,497)</u>	2,046,952
Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements.		
Contributions subsequent to measurement date	\$ 764,437	
Change in investment earnings	607,185	
Change in proportionate share	<u>750,282</u>	2,121,904
Long-term liabilities in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements. This is the amount of the net pension liability.		
		(26,403,085)
Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements.		
Change in experience	<u>\$ (1,971)</u>	(1,971)
Net position of internal service funds		<u>(2,150,448)</u>
<u>Total net position - governmental activities</u>		<u>\$ (17,457,888)</u>

Pinnacle Charter School, Inc.
Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2015

	General Fund
<u>Revenues</u>	
Local sources	\$ 15,631,201
State sources	1,183,355
Federal sources	1,297,165
<u>Total revenues</u>	18,111,721
<u>Expenditures</u>	
Current:	
Instruction	8,157,841
Supporting services	8,970,609
<u>Total expenditures</u>	17,128,450
<u>Excess of revenues over expenditures</u>	983,271
<u>Fund balance at beginning of year</u>	5,945,489
<u>Fund balance at end of year</u>	\$ 6,928,760

Reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balance with the government-wide statement of activities:

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - governmental funds	\$ 983,271
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For governmental activities, capital outlays to purchase or build capital assets are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense. This is the net change of capital outlay and depreciation expense during the current period.

Depreciation expense	\$ (87,361)	
Capital outlay	226,762	139,401

Some items reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental fund financial statements.

Change in contributions subsequent to measurement date	\$ 108,732	
Pension expense - first year amortization	(281,730)	
Employer contribution expense	(946,260)	(1,119,258)

Change in net position of internal service funds	128,557
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Change in net position of governmental activities	\$ 131,971
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The accompanying notes are an integral part of these financial statements.

Pinnacle Charter School, Inc.
Statement of Net Position
Proprietary Funds
June 30, 2015

	Internal Service Funds		
	Building Corporation	Property Corporation	Total Internal Service Funds (Governmental Activities)
<u>ASSETS</u>			
<u>Current assets</u>			
Due from other funds	\$ -	\$ 88,195	\$ 88,195
<u>Total current assets</u>	-	88,195	88,195
<u>Noncurrent assets</u>			
Restricted cash and investments	1,491,849	1,244,009	2,735,858
Capital assets, net	13,477,093	9,881,411	23,358,504
<u>Total noncurrent assets</u>	14,968,942	11,125,420	26,094,362
<u>Total assets</u>	14,968,942	11,213,615	26,182,557
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
<u>Deferred outflows of resources</u>			
Deferred loss on refunding	1,109,320	-	1,109,320
<u>Total deferred outflows of resources</u>	1,109,320	-	1,109,320
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Accrued interest payable	61,182	49,518	110,700
Due to other funds	3,185	-	3,185
Loans payable, current	505,000	235,000	740,000
<u>Total current liabilities</u>	569,367	284,518	853,885
<u>Noncurrent liabilities</u>			
Loans payable	17,185,107	11,403,333	28,588,440
<u>Total liabilities</u>	17,754,474	11,687,851	29,442,325
<u>NET POSITION</u>			
<u>Net position</u>			
Net investment in capital assets	(3,103,694)	(1,756,922)	(4,860,616)
Restricted for debt service	1,491,849	1,043,776	2,535,625
Restricted for repair and replacement	-	200,233	200,233
Unrestricted	(64,367)	38,677	(25,690)
<u>Total net position (deficit)</u>	<u>\$ (1,676,212)</u>	<u>\$ (474,236)</u>	<u>\$ (2,150,448)</u>

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

Pinnacle Charter School, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2015

	Internal Service Funds		
	Building Corporation	Property Corporation	Total Internal Service Funds (Governmental Activities)
<u>Operating revenues</u>			
Charges for services:			
Lease revenue	\$ 1,261,969	\$ 857,919	\$ 2,119,888
<u>Total operating revenues</u>	1,261,969	857,919	2,119,888
<u>Operating expenses</u>			
Depreciation	362,626	206,649	569,275
Amortization	8,379	18,196	26,575
<u>Total operating expenses</u>	371,005	224,845	595,850
<u>Net operating income</u>	890,964	633,074	1,524,038
<u>Nonoperating revenues (expenses)</u>			
Earnings on investments	1,399	1,012	2,411
Interest and finance charges	(771,896)	(625,996)	(1,397,892)
<u>Total nonoperating revenues (expenses)</u>	(770,497)	(624,984)	(1,395,481)
<u>Change in net position</u>	120,467	8,090	128,557
<u>Net position (deficit), beginning of the year</u>	(1,796,679)	(482,326)	(2,279,005)
<u>Net position (deficit), end of the year</u>	\$ (1,676,212)	\$ (474,236)	\$ (2,150,448)

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

Pinnacle Charter School, Inc.
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Internal Service Funds		Total Internal Service Funds (Governmental Activities)
	Building Corporation	Property Corporation	
<u>Cash flows from operating activities</u>			
Lease payments received from other funds	\$ 1,261,969	\$ 857,919	\$ 2,119,888
<u>Net cash flows from operating activities</u>	<u>1,261,969</u>	<u>857,919</u>	<u>2,119,888</u>
<u>Cash flows from noncapital financing activities</u>			
Cash received from (paid to) other funds	(166)	1,028	862
<u>Net cash flows from noncapital financing activities</u>	<u>(166)</u>	<u>1,028</u>	<u>862</u>
<u>Cash flows from capital and related financing activities</u>			
Principal payments of long-term debt	(490,000)	(230,000)	(720,000)
Interest payments of long-term debt	(773,121)	(627,427)	(1,400,548)
Change in restricted cash and cash equivalents	(81)	(2,532)	(2,613)
<u>Net cash flows from capital and related financing activities</u>	<u>(1,263,202)</u>	<u>(859,959)</u>	<u>(2,123,161)</u>
<u>Cash flows from investing activities</u>			
Investment income received	1,399	1,012	2,411
<u>Net cash flows from investing activities</u>	<u>1,399</u>	<u>1,012</u>	<u>2,411</u>
<u>Net change in cash and cash equivalents</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents, beginning of year</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>Reconciliation of operating income (loss) to net cash flows from operating activities :</u>			
Operating income	\$ 890,964	\$ 633,074	1,524,038
Adjustments to reconcile operating income to net cash flows from operating activities			
Depreciation	362,626	206,649	569,275
Amortization	8,379	18,196	26,575
<u>Net cash flows from operating activities</u>	<u>\$ 1,261,969</u>	<u>\$ 857,919</u>	<u>\$ 2,119,888</u>

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

Pinnacle Charter School, Inc.
Statement of Fiduciary Net Position
Student Activity Fund
June 30, 2015

	<u>ASSETS</u>	<u>Agency Fund</u>
Cash and investments		\$ 131,573
<u>Total assets</u>		<u>\$ 131,573</u>
	<u>LIABILITIES</u>	
Due to student groups		\$ 131,573
<u>Total liabilities</u>		<u>\$ 131,573</u>

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

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies

The Pinnacle Charter School, Inc. (the "School") was established pursuant to the Colorado Charter Schools Act, to form and operate a charter school within the Adams County School District No. 12. The School began operations in 1994. In 2006, the School entered into a contract with the Colorado Charter School Institute (the "Institute") to authorize the School's charter. The current contract expires on June 30, 2016.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the School's significant accounting policies consistently applied in the preparation of these financial statements follows.

Reporting Entity

As defined by GAAP established by the GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's governing board, and either, a) the ability to impose its will by the primary government, or b) there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or
- 2) Fiscal dependency on the primary government and there is a potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The School is a legally separate entity as defined by the GASB. The School includes the Pinnacle Charter School Building Corporation (the "Building Corporation") and the Pinnacle Charter School Property Corporation (the "Property Corporation") within its reporting entity. The Building Corporation was formed exclusively for the purpose of holding title to real and/or personal property and provides facilities and equipment for use by the School. The Property Corporation was formed for the purpose of acquiring and construction property and equipment for use by the School. These entities are blended into the School's financial statements as internal service funds because they provide services exclusively to the School, receive all of their funding from the School, and the School appoints their board members. Separate audited financial statements are not available for these entities.

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 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 intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support and are operate in a manner similar to private business enterprises. The School does not report any business-type activities.

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 student or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School, or to other governments, on a cost reimbursement basis. The internal service funds of the School accounts for the activities of the Building Corporation and Property Corporation.

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

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities. In the fund financial statements, the School reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the School. It accounts for all of the financial resources of the School, except those required to be accounted for in another fund.

Proprietary Funds

The School reports the following internal service funds:

Building Corporation – This fund accounts for specific revenue sources and the related expenditures of the Building Corporation that are restricted to capital purposes and debt service.

Property Corporation – This fund accounts for specific revenue sources and the related expenditures of the Property Corporation that are restricted to capital purposes and debt service.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School has one agency fund, the Student Activities Fund. This fund accounts for various student activities. The School holds all resources in a purely custodial capacity.

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 are the proprietary and fiduciary 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.

A balance sheet and statement of revenues, expenditures and changes in fund balance are presented for each governmental fund. 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 earnings on investments 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 available only when the cash is received by the School. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The School has two internal service funds.

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources

Cash and Investments – Cash equivalents include investments with original maturities of three months or less. Investments are reported at fair value.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion of that is expected to be uncollectible. No amounts were determined to be uncollectible at June 30, 2015.

Inventories – Inventories are stated at average cost. Inventories are recorded as an asset when individual items are purchased and as an expense when consumed.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements and the proprietary funds in the fund financial statements. Capital assets are defined by the School 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 valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 Years
Vehicles and Equipment	5 - 15 Years

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (Continued)

Long-Term Debt – In the government-wide financial statements and the proprietary funds in the fund financial statements, long-term debt is reported as a liability. Debt issuance costs are expensed when incurred. In the fund financial statements, governmental funds recognize the amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

Compensated Absences – The School's policy allows full-time, certified employees to accumulate vacation, sick and personal leave during the year. Employees are paid for any unused leave annually prior to year end. Classified employees must use any vacation, sick and personal leave days prior to year end. Therefore, no liability has been reported in the financial statements for these compensated absences.

Budgets and Budgetary Accounting

Budgets are required by State statutes for all of the School's funds. Budgets for the General Fund and Student Activities Funds are adopted on a basis consistent with GAAP. Budgetary comparisons for the Building Corporation and Property Corporation Funds are presented on a non-GAAP basis. Capital outlay is budgeted as an expenditure and depreciation expense is not budgeted.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. Before 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.
2. Prior to June 30, the budget is legally adopted by the School Board of Directors.
3. 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.
4. All budget appropriations lapse at year end.

Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors throughout the year. The following is a summary of the original budget, total revisions and revised budget for those funds with amended budgets in fiscal year 2015:

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

	Original Budget	Total Revisions	Revised Budget
<u>Governmental Fund:</u>			
General Fund	\$ 21,056,417	\$ 355,382	\$ 21,411,799
<u>Proprietary Funds:</u>			
Building Corporation - Internal Service Fund	1,264,646	-	1,264,646
Property Corporation - Internal Service Fund	860,242	-	860,242
<u>Fiduciary Fund:</u>			
Student Activities Fund - Agency Fund	470,542	-	470,542
 <u>Total Funds</u>	 <u>\$ 23,651,847</u>	 <u>\$ 355,382</u>	 <u>\$ 24,007,229</u>

Fund Balance and Net Position

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position - This category represents the net position of the School, which is not restricted for any project or other purpose. A deficit will require future funding.

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors (the "Board"). The Board is the highest level of decision making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the Board has the authority to assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Balance and Net Position (Continued)

The School has not established a formal policy for its use of restricted and unrestricted resources. However, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the School considers restricted resources to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the School has provided otherwise in its commitment or assignment actions.

Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

At June 30, 2015, the Building Corporation and Property Corporation Funds had negative net position of \$1,676,212 and \$474,236, respectively. Management expects these negative balances will be eliminated as debt is repaid.

Note 3 – New Accounting Pronouncement

During fiscal year 2014, the School implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The result of the implementation of this standard was to decrease the net position at the beginning of the fiscal year by \$23,163,893 in the governmental activities.

Note 3 - Cash and Investments

Cash and investments of the School, including the Building Corporation and Property Corporation, consisted of the following at June 30, 2015:

Petty cash	\$ 300
Bank deposits	7,589,158
Local government investment pool	<u>2,735,858</u>
	<u>\$ 10,325,316</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 4 - Cash and Investments (Continued)

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

Petty cash	\$ 300
Bank deposits	7,589,158
Local government investment pool	<u>2,735,858</u>
	<u>\$ 10,325,316</u>

Deposits

Colorado state statutes govern the entity's deposits of cash. For deposits in excess of federally insured limits, Colorado Revised Statutes ("CRS") require the depository institution to maintain collateral on deposit with an official custodian (as authorized by the State Banking Board). The Colorado Public Deposit Protection Act ("PDPA") requires state regulators to certify eligible depositories for public deposit. PDPA requires the eligible depositories with public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation ("FDIC") to create a single institutional collateral pool of obligations of the State of Colorado or local Colorado 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. The market value of the assets in the pool must be at least 102% of the uninsured deposits. At June 30, 2015, the School had deposits with financial institutions with a carrying amount of \$7,589,158. The bank balances with the financial institutions were \$8,031,550, of which \$250,000 was covered by federal depository insurance. The remaining balance of \$7,781,550 was collateralized with securities held by the financial institutions' agents but not in the School's name.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States of America and certain U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Guaranteed investment pools
- Certain money market funds
- Local government investment pools

The School's investment policy follows state statutes.

Local Government Investment Pool

As of June 30, 2015, the School had invested \$2,735,858 in the Colorado Surplus Asset Fund Trust ("CSAFE"), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operate similarly to a money market fund and each share is equal in value to \$1.00. The designated custodial bank of CSAFE provides safekeeping and depository services in connection with the direct investment and withdrawal functions of CSAFE. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. Investments of CSAFE consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The investment policy of CSAFE does not include investing in derivatives. CSAFE has been rated AAAM by Standard & Poor's rating service.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 4 - Cash and Investments (Continued)

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years. This limit on investment maturities is the means of limiting exposure to fair value losses arising from increasing interest rates.

Restricted Cash and Investments

Cash and investments of \$1,491,849 and \$1,244,009 have been restricted by the Building Corporation and Property Corporation, respectively, for debt service and repair and replacement reserves.

Note 5 - Individual Fund Interfund Receivables/Payables and Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or service rendered. These receivables and payables are classified as internal balances on the government-wide statement of net position, and classified as due from other funds or due to other funds on the fund balance sheets. Internal balances are eliminated for the statement of net position.

The School considers all interfund receivable and payables to be temporary and in compliance with state law, which requires all balances to be repaid within three months of the year end.

The School's interfund receivables and payables at June 30, 2015, (at the fund level) are shown below.

Receivable Fund	Payable fund	Amount
General Fund	Building Corporation Fund	\$ 3,185
Property Corporation Fund	General Fund	88,195
		<u>\$ 91,380</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 6 - Capital Assets

Changes in capital assets for governmental activities the year ended June 30, 2015, are summarized below.

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,625,000	\$ -	\$ -	\$ 2,625,000
Construction in Process	-	203,600	-	203,600
Total capital assets, not being depreciated	2,625,000	203,600	-	2,828,600
Capital assets, being depreciated				
Buildings	16,305,594	-	-	16,305,594
Vehicles and equipment	1,828,667	23,162	-	1,851,829
Improvements	11,669,497	-	-	11,669,497
Total capital assets, being depreciated	29,803,758	23,162	-	29,826,920
Less accumulated depreciation for:				
Buildings	(3,575,493)	(326,406)	-	(3,901,899)
Vehicles and equipment	(1,477,294)	(51,241)	-	(1,528,535)
Improvements	(1,540,641)	(278,989)	-	(1,819,630)
Total accumulated depreciation	(6,593,428)	(656,636)	-	(7,250,064)
Capital assets, net	\$25,835,330	\$ (429,874)	\$ -	\$25,405,456

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

Governmental activities:	
Instruction	\$ 36,120
Supporting Services	620,516
	<u>\$ 656,636</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 7 - Long-Term Debt

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
2010 Building Loan	\$12,305,000	\$ -	\$ (230,000)	\$12,075,000	\$ 235,000
Discount	(454,863)	-	18,196	(436,667)	-
2013 Refunding Loan	17,160,000	-	(490,000)	16,670,000	505,000
Premium	1,115,911	-	(95,804)	1,020,107	-
	<u>\$30,126,048</u>	<u>\$ -</u>	<u>\$ (797,608)</u>	<u>\$29,328,440</u>	<u>\$ 740,000</u>

2010 Building Loan:

In January, 2010, CECFA issued \$12,985,000 Charter School Revenue Bonds. Proceeds of the bonds were loaned to the Property Corporation to pay off an existing loan and provide additional funding for a high school educational facility. The School is obligated under a lease agreement to make monthly lease payments to the Property Corporation for use of the facilities. The Property Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. Monthly principal and interest payments are due under the agreements, with interest accruing at rates ranging from 2.4% to 5.125% per annum. The bonds mature on December 1, 2039.

Future debt service requirements of the 2010 building loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 505,000	\$ 734,188	\$ 1,239,188
2017	520,000	719,038	1,239,038
2018	680,000	703,438	1,383,438
2019	710,000	676,238	1,386,238
2020	745,000	640,738	1,385,738
2021-2025	4,255,000	2,673,488	6,928,488
2026-2030	5,405,000	1,517,938	6,922,938
2031-2035	3,850,000	308,913	4,158,913
Totals	<u>\$ 16,670,000</u>	<u>\$ 7,973,979</u>	<u>\$24,643,979</u>

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 7 - Long-Term Debt (Continued)

Charter School Refunding Revenue Bonds, Series 2013

In March 2013, the Building Corporation issued \$17,685,000 in Charter School Refunding Revenue Bonds, Series 2013 with interest rates ranging between 3.00% and 5.00%. The Building Corporation issued the bonds to currently refund \$18,905,000 of the outstanding series 2003 Charter School Revenue Refunding and Improvement Bonds with interest rates ranging from 3.70% to 5.25%. The Building Corporation used the net proceeds along with other resources to satisfy the balance due on the series 2003 bonds.

The School is obligated under a lease agreement to make monthly lease payments to the Building Corporation for use of the facilities. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds mature on June 1, 2033.

Future debt service requirements of the 2014 series Charter School Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 235,000	\$ 599,359	\$ 834,359
2017	245,000	588,859	833,859
2018	260,000	577,813	837,813
2019	270,000	566,219	836,219
2020	280,000	554,187	834,187
2021-2025	1,630,000	2,544,560	4,174,560
2026-2030	2,105,000	2,080,185	4,185,185
2031-2035	2,700,000	1,474,975	4,174,975
2036-2040	4,350,000	663,689	5,013,689
Totals	<u>\$ 12,075,000</u>	<u>\$ 9,649,846</u>	<u>\$ 21,724,846</u>

Note 8 - Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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.

General Information about the Pension Plan

Plan description. Eligible employees of the 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.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 8 - Defined Benefit Pension Plan (Continued)

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 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent 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 percent 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 percent 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 percent or 100 percent 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.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), 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 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent 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 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve 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.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 8 - Defined Benefit Pension Plan (Continued)

Contributions. Eligible employees and the 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 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate ¹	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 SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	3.50%	4.00%
Total Employer Contribution Rate to the SCHDTF ¹	16.43%	17.33%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$1,449,580 for the year ended June 30, 2015.

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

At June 30, 2015, the School reported a liability of \$26,403,085 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2014 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2014, the School's proportion was 0.19 percent, which was an increase of 0.01 from its proportion measured as of December 31, 2013.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 8 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2015, the School recognized pension expense of \$463,555. At June 30, 2015, 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
Difference between expected and actual experience	\$ -	\$ 1,971
Net difference between projected and actual earnings on pension plan investments	607,185	-
Changes in proportion	750,282	-
Contributions subsequent to the measurement date	764,437	-
	\$ 2,121,904	\$ 1,971

\$764,437 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 428,948
2017	428,948
2018	345,803
2019	151,797
	\$ 1,355,496

Actuarial assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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
Future 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

Mortality rates 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.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 8 - Defined Benefit Pension Plan (Continued)

The actuarial assumptions used in the December 31, 2013 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.

The SCHDTF's long-term expected rate of return on pension 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.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, 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	10 Year Expected Geometric Real Rate of Return
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 Gov't/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	100.00%	

* 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 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the School's 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 7.50 percent, 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 34,814,879	\$ 26,403,085	\$ 19,362,270

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 8 - Defined Benefit Pension Plan (Continued)

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.

Note 9 - Postemployment Health Care Benefits

Health Care Trust Fund

Plan Description – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit 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 C.R.S., 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/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2015, 2014, and 2013, the School's contributions to the HCTF were \$87,528, \$83,922 and \$73,784, respectively, equal to their required contributions for each year.

Note 10 - 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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 11 - Commitments and Contingencies

Litigation

At times, the School may be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the School.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2015, significant amounts of grant expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Pinnacle Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

Note 11 - Commitments and Contingencies (Continued)

TABOR Amendment

In November 1992, Colorado voters passed an amendment (the "Amendment" of "TABOR") to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and fiscal year spending include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the Amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage and fund reserve (balance). The Amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the spending limit must be refunded or approved to be retained by the School under specified voting requirements by the entire electorate.

The Amendment also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by the Amendment, exclude economic conditions, revenue shortfalls, or salary of fringe benefit increase. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The School has restricted \$504,600 for this purpose.

The School believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

Note 12 - Subsequent Events

Management of the School has evaluated subsequent events through **September 30, 2015**, the date that the financial statements were available to be issued. Effective July 1, 2015, the School became a School Food Authority. No other transactions or events that would require adjustment to or disclosures in the financial statements were identified.

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REQUIRED SUPPLEMENTARY INFORMATION

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local sources:				
Per pupil revenue	\$ 14,818,312	\$ 14,818,312	\$ 14,806,636	\$ (11,676)
Tuition and fees	200,700	200,700	197,372	(3,328)
BASE fees	175,000	175,000	152,057	(22,943)
Transportation fees	80,000	80,000	74,529	(5,471)
Facility rental	105,000	105,000	106,823	1,823
Student meals	170,300	170,300	159,416	(10,884)
Earnings on investments	5,000	5,000	5,090	90
Services provided charter school	25,000	25,000	22,772	(2,228)
Other	67,225	89,225	106,506	17,281
Total local sources	15,646,537	15,668,537	15,631,201	(37,336)
State sources:				
Grants	840,418	1,150,016	1,183,355	33,339
Federal sources:				
Grants	1,357,942	1,381,726	1,297,165	(84,561)
Total revenues	17,844,897	18,200,279	18,111,721	(88,558)
Expenditures				
Instruction	8,352,166	8,628,770	8,157,841	470,929
Supporting services	9,163,878	9,242,656	8,970,609	272,047
Reserves	3,540,373	3,540,373	-	3,540,373
Total expenditures	21,056,417	21,411,799	17,128,450	4,283,349
Excess of revenues over expenditures	\$ (3,211,520)	\$ (3,211,520)	983,271	\$ 4,194,791
Fund balance at beginning of year			5,945,489	
Fund balance at end of year			\$ 6,928,760	

See accompanying Independent Auditor's Report.

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OTHER INFORMATION

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
Building Corporation
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Lease revenues	\$ 1,263,146	\$ 1,263,146	\$ 1,261,969	\$ (1,177)
Earnings on investments	1,500	1,500	1,399	(101)
<u>Total revenues</u>	<u>1,264,646</u>	<u>1,264,646</u>	<u>1,263,368</u>	<u>(1,278)</u>
<u>Expenditures</u>				
Debt Service:				
Principal	491,250	491,250	490,000	1,250
Interest	747,663	747,663	747,663	-
Dues and fees	25,733	25,733	24,233	1,500
<u>Total expenditures</u>	<u>1,264,646</u>	<u>1,264,646</u>	<u>1,261,896</u>	<u>2,750</u>
<u>Excess of revenues over expenditures</u>	<u>\$ -</u>	<u>\$ -</u>	1,472	<u>\$ 1,472</u>
<u>Reconciliation to GAAP basis</u>				
Depreciation			(362,626)	
Amortization			(8,379)	
Principal paid			490,000	
<u>Change in net position - GAAP basis</u>			120,467	
<u>Net position at beginning of year</u>			<u>(1,796,679)</u>	
<u>Net position at end of year</u>			<u>\$ (1,676,212)</u>	

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Budgetary Comparison Schedule
Property Corporation
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Lease revenues	\$ 858,742	\$ 858,742	\$ 857,919	\$ (823)
Earnings on investments	1,500	1,500	1,012	(488)
<u>Total revenues</u>	<u>860,242</u>	<u>860,242</u>	<u>858,931</u>	<u>(1,311)</u>
<u>Expenditures</u>				
Debt Service:				
Principal	232,917	232,917	230,000	2,917
Interest	607,375	607,375	606,518	857
Dues and fees	19,950	19,950	19,478	472
<u>Total expenditures</u>	<u>860,242</u>	<u>860,242</u>	<u>855,996</u>	<u>4,246</u>
<u>Excess of revenues over expenditures</u>	<u>\$ -</u>	<u>\$ -</u>	2,935	<u>\$ 2,935</u>
<u>Reconciliation to GAAP basis</u>				
Depreciation			(206,649)	
Amortization			(18,196)	
Principal paid			230,000	
<u>Change in net position - GAAP basis</u>			8,090	
<u>Net position at beginning of year</u>			<u>(482,326)</u>	
<u>Net position at end of year</u>			<u>\$ (474,236)</u>	

See accompanying Independent Auditor's Report.

Pinnacle Charter School, Inc.
Schedule of Changes in Assets and Liabilities
Agency Fund - Student Activity Fund
For the Year Ended June 30, 2015

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Assets</u>				
Cash and investments	\$ 110,695	\$ 322,844	\$ 301,966	\$ 131,573
<u>Liabilities</u>				
Due to student groups	\$ 110,695	\$ 322,844	\$ 301,966	\$ 131,573

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See accompanying Independent Auditor's Report.

**Pinnacle Charter School, Inc.
 Budgetary Comparison Schedule
 Student Activity Fund
 For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Student groups	\$ 350,000	\$ 350,000	\$ 322,844	\$ (27,156)
<u>Total revenues</u>	350,000	350,000	322,844	(27,156)
<u>Expenditures</u>				
Student groups	470,542	470,542	301,966	168,576
<u>Total expenditures</u>	470,542	470,542	301,966	168,576
<u>Change in due to student groups</u>	<u>\$ (120,542)</u>	<u>\$ (120,542)</u>	20,878	<u>\$ 141,420</u>
<u>Due to student groups at beginning of year</u>			110,695	
<u>Due to student groups at end of year</u>			<u>\$ 131,573</u>	

See accompanying Independent Auditor's Report.