

VISTA CHARTER SCHOOL
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

November 11, 2014

The Board of Directors
Vista Charter School

We have audited the accompanying financial statements of the governmental activities and each major fund of Vista Charter School, a component unit of Montrose County School District No. RE 1-J as of and for the year ended June 30, 2015, 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Vista Charter School, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 8, budgetary comparison information on page 27, schedule of activity—net pension liability on page 28, and schedule of activity—employer pension contributions on page 29 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.

Vista Charter School

STATEMENT OF NET POSITION

June 30, 2015

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash | \$ 214,039 |
| Investments | 1,683,332 |
| Prepaid expenses | 21,400 |
| Capital assets: | |
| Nondepreciable | 595,320 |
| Depreciable capital assets, net | <u>4,884,451</u> |
| Total assets | 7,398,542 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pension | <u>99,771</u> |
| Total assets and deferred outflows of resources | <u>7,498,313</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 1,296 |
| Accrued salaries and benefits | 113,663 |
| Due to other government | 1,887 |
| Noncurrent liabilities: | |
| Net Pension Liability | <u>1,725,979</u> |
| Total liabilities | 1,842,825 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pension | <u>129</u> |
| Total liabilities and deferred inflows of resources | <u>1,842,954</u> |
| NET POSITION | |
| Net investment in capital assets | 5,479,771 |
| Restricted for | |
| Emergencies | 34,321 |
| Capital renewal | 55,400 |
| Unrestricted | <u>85,867</u> |
| Total net position | <u><u>\$ 5,655,359</u></u> |

The accompanying notes are an integral part of this statement.

Vista Charter School
STATEMENT OF ACTIVITIES

Year ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | Total |
|-------------------------------------|---------------------|-------------------------|--|--|--|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental activities: | | | | | | |
| Instructional services | \$ 865,522 | \$ 109,815 | \$ 17,366 | \$ - | \$ (738,341) | \$ (738,341) |
| Support services: | | | | | | |
| Student services | 65,650 | - | - | - | (65,650) | (65,650) |
| Instructional staff services | 241,405 | - | - | - | (241,405) | (241,405) |
| General administration services | 146,518 | - | - | - | (146,518) | (146,518) |
| School administration services | 38 | - | - | - | (38) | (38) |
| Business support | 62,832 | - | - | - | (62,832) | (62,832) |
| Total support services | <u>516,443</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(516,443)</u> | <u>(516,443)</u> |
| Total governmental activities | <u>\$ 1,381,965</u> | <u>\$ 109,815</u> | <u>\$ 17,366</u> | <u>\$ -</u> | <u>(1,254,784)</u> | <u>(1,254,784)</u> |
| General revenues: | | | | | | |
| State equalization | | | | | 1,107,981 | 1,107,981 |
| Investment earnings | | | | | 2,119 | 2,119 |
| Total general revenues | | | | | <u>1,110,100</u> | <u>1,110,100</u> |
| Change in net position | | | | | (144,684) | (144,684) |
| Net position - beginning | | | | | 7,365,107 | 7,365,107 |
| Change in accounting principle | | | | | (1,565,064) | (1,565,064) |
| Net position - beginning - restated | | | | | <u>5,800,043</u> | <u>5,800,043</u> |
| Net position - ending | | | | | <u>\$ 5,655,359</u> | <u>\$ 5,655,359</u> |

The accompanying notes are an integral part of this statement.

Vista Charter School

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2015

| | <u>General</u> |
|--|----------------------------|
| ASSETS | |
| Cash | \$ 214,039 |
| Investments | 1,683,332 |
| Prepaid expenses | <u>21,400</u> |
| Total assets | <u><u>\$ 1,918,771</u></u> |
| LIABILITIES AND FUND EQUITY | |
| Liabilities | |
| Accounts Payable | \$ 1,296 |
| Due to other government | 1,887 |
| Accrued salaries and benefits | <u>113,663</u> |
| Total liabilities | 116,846 |
| Fund Balance | |
| Nonspendable | 21,400 |
| Restricted for TABOR | 34,321 |
| Restricted for capital renewal | 55,400 |
| Unassigned | <u>1,690,804</u> |
| Total fund balance | <u>1,801,925</u> |
| Total liabilities and fund balance | <u><u>\$ 1,918,771</u></u> |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Fund balance | \$ 1,801,925 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,844,307 and the accumulated depreciation is \$364,536. | 5,479,771 |
| The amount by which deferred outflows of resources are more than deferred inflows of resources, both of which are not recorded in the funds (\$48,337+\$39,692+\$11,742-\$129) | 99,642 |
| Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds | (1,725,979) |
| Total net position - governmental activities | <u><u>\$ 5,655,359</u></u> |

The accompanying notes are an integral part of this statement.

Vista Charter School

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND

Year ended June 30, 2015

| | <u>General</u> |
|---|---------------------|
| Revenues | |
| Local sources | |
| Tuition and scholarships | \$ 90,836 |
| Other revenues | 20,729 |
| Investment income | 2,119 |
| State sources | |
| State equalization - direct pupil allocation | 1,107,981 |
| Grants | 15,616 |
| Total revenues | <u>1,237,281</u> |
| Expenditures | |
| Instructional | 660,065 |
| Supporting services | |
| Student services | 65,650 |
| Instructional staff services | 241,405 |
| General administration services | 146,518 |
| School administration services | 38 |
| Business support services | 62,832 |
| Total expenditures | <u>1,176,508</u> |
| Change in fund balance | 60,773 |
| Fund balance, beginning of year | 1,741,152 |
| Fund balance, end of year | <u>\$ 1,801,925</u> |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Net Change in Fund Balance - Governmental Fund | \$ 60,773 |
| In the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation expense | (144,183) |
| In the governmental funds, expenditures related to pension obligations are measured by the amount of financial resources used (essentially, the amounts actually paid to the pension plan), whereas in the statement of activities, they are measured on full accrual basis. This is the amount by which pension expense in the statement of activities was more than pension expenditures in the governmental funds. | <u>(61,274)</u> |
| Change in Net Position - Governmental Activities | <u>\$ (144,684)</u> |

The accompanying notes are an integral part of this statement.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Vista Charter School (the School) have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

The following is a summary of the School's significant accounting policies:

1. The Reporting Entity

Vista Charter School consists of an alternative high school and expulsion/ intervention/ prevention program. It is governed by a Board of Directors made up of volunteers from the interested community. The School is a component unit of Montrose County School District No. RE-1J (the District).

The Legislature of the State of Colorado enacted the "Charter School Act – Colorado Revised Statutes (CRS) Section 22-30.5-101" in 1993. This Act permits the District to contract with individuals and organizations for the operation of schools within the District. The statutes define these contracted schools as "Charter Schools." Charter schools are financed from a portion of the District's School Finance Act revenues and from revenues generated by the charter schools, within the limits established by the Charter School Act. Charter Schools have separate governing boards; however, the District's Board of Education must approve all Charter School applications and budgets. Vista Charter School, a 501(c)(3) organization, entered into a contract with the District in accordance with Colorado State statutes.

The School contracts with the District for payment of salaries, payroll costs, and other accounting services. The School and the District have entered into an agreement whereby the District funds 100 percent of the District's per pupil funding based on the School's enrollment.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. Governmental activities, which normally are supported by grants and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a 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 customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental revenue (other than grants) and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenue associated with the current fiscal period is all considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

The School reports one major governmental fund. The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

4. Assets, Liabilities and Net Position or Equity

Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the School are reported at fair value.

State statutes authorize the School to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of 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, and guaranteed investment contracts.

Receivables

The School considers all receivables to be fully realizable and does not maintain an allowance for doubtful accounts.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The School has no reportable infrastructure.

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

Property, plant, and equipment of the School is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------|--------------|
| Buildings | 40 |
| Improvements | 20 |
| Vehicles and Equipment | 5 – 15 |

Compensated Absences

It is the School's policy to pay employees for earned, but unused, vacation and sick pay benefits at the end of the fiscal year. Therefore, no compensated absences accrue at the end of the fiscal year.

Accrued Salaries

Salaries and benefits to teachers and certain other employees are paid over a 12-month period from September 1 to August 30, but are earned over a school year of approximately nine months. The salaries earned, but unpaid, at June 30 are reflected in the financial statements as an accrued liability.

5. Stewardship, compliance and accountability

Budgetary Information

Prior to May 15, the Administrator/Principal submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes expenditures and the means of financing them. Public board meetings are conducted to obtain comments. Prior to June 30, the budget is adopted by the Board.

During the budget year, the Board of Directors has the option of changing and finalizing the budget for the fiscal year. There were no additional appropriations during the fiscal year ended June 30, 2015.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgeted level of expenditures

Expenditures may not legally exceed appropriations at the fund level. Administrative control is maintained through the use of detailed line-item budgets. Budgets must be amended at the fund level by the Board of Directors. At year-end, all appropriations lapse in accordance with Colorado statutes.

Budgetary basis of accounting

Appropriated budgets are adopted by the Board of Directors for the General Fund on a basis consistent with generally accepted accounting principles (GAAP).

6. Fund Balances

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a School's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the School's highest level of decision making authority, the Board of Directors, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board, through approval of motions.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The School will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is School policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvements on those assets, excluding unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use, through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

7. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Adoption of GASB 68

For the year ended June 30, 2015, the School adopted the provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 68 – *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, which replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

9. 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.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B – CASH AND INVESTMENTS

Cash and investments consist of the following:

| | |
|----------------------------|---------------------|
| Demand accounts | \$ 213,839 |
| Petty cash | 200 |
| Investment in COLOTRUST | <u>1,683,332</u> |
| Total cash and investments | <u>\$ 1,897,371</u> |

As of June 30, 2015, the carrying amount of the School’s deposits was \$213,839 and the bank balance was \$433,042. Of that balance \$250,000 was covered by FDIC insurance.

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized.

The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The School participates in the PDPA program through its relationship with Montrose County School District RE-1J.

Investments

The School had invested \$1,683,332 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The trust operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to this trust in connection with their direct investment and withdrawal functions. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. COLOTRUST funds carry a AAAM rating.

Interest rate risk – The School does not have a formal policy limiting investment maturities other than that established by state statute of five years, which would help manage its exposure to fair value losses from increasing interest rates.

NOTE C – CAPITAL ASSETS

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-----------------------------|------------------------------|------------------|------------------|---------------------------|
| Land | \$ 595,320 | \$ — | \$ — | \$ 595,320 |
| Total Nondepreciable Assets | 595,320 | — | — | 595,320 |

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE C – CAPITAL ASSETS – CONTINUED

| | | | | |
|--------------------------|---------------------|--------------------|-------------|---------------------|
| Building | 5,174,937 | – | – | 5,174,937 |
| Equipment & Vehicles | <u>74,050</u> | <u>–</u> | <u>–</u> | <u>74,050</u> |
| Total Depreciable Assets | 5,248,987 | – | – | 5,248,987 |
| Accumulated Depreciation | <u>(220,352)</u> | <u>(144,183)</u> | <u>–</u> | <u>(364,536)</u> |
| Net Depreciable Assets | <u>5,028,635</u> | <u>(144,183)</u> | <u>–</u> | <u>4,884,451</u> |
| Total Assets | <u>\$ 5,623,955</u> | <u>\$(144,183)</u> | <u>\$ –</u> | <u>\$ 5,479,771</u> |

Depreciation expense was charged for functions/programs of the School as follows:

Governmental activities:

Instructional services \$144,183

NOTE D – DEFINED BENEFIT PENSION PLAN

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.

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

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

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

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

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

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

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

| | For the Calendar Year Ended December 31, 2014 | For the Calendar 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 \$98,450 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 \$1,725,979 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 0.0127%, which was an increase of 0.0001% from its proportion measured as of December 31, 2013.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

For the year ended June 30, 2015, the School recognized pension expense of \$159,724. 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 | \$ – | \$ 129 |
| Changes of assumptions or other inputs | – | – |
| Net difference between projected and actual earnings on pension plan investments | 39,692 | – |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 11,742 | – |
| Contributions subsequent to the measurement date | 48,337 | – |
| Total | <u>\$ 99,771</u> | <u>\$ 129</u> |

\$48,337 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:

| Fiscal-Year Ending June 30, | |
|--------------------------------|-----------|
| 2016 | \$ 15,041 |
| 2017 | 15,041 |
| 2018 | 13,737 |
| 2019 | 7,486 |

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 |

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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.

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’s 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 estimate 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%. 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%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Based on those assumptions, the SCHDTF’s fiduciary net position was projected to be available to

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

make all projected 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%, 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 (6.5%) or 1-percentage point higher (8.5%) than the current rate:

| | Sensitivity of the NPL | | |
|--|------------------------|--------------|--------------|
| Discount rate: | 6.50% | 7.50% | 8.50% |
| Proportionate share of the net pension liability | \$ 2,275,861 | \$ 1,725,979 | \$ 1,265,718 |

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/investment/pera-financial-reports.

NOTE F – POST EMPLOYMENT HEALTH CARE BENEFITS

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. The School’s employer contributions to HCTF for the years ended June 30, 2015, 2014, and 2013, were \$7,296, \$6,766, and \$6,061 respectively, equal to the required contributions for each year.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G – RISK MANAGEMENT

The School insures against loss or damage to property; pays premiums on loss insurances; and pays judgments, administrative and legal claims. This activity occurs in the General Fund.

The School is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks are covered by the School's participation as a member of the Colorado School District Self-Insurance Pool, which operates as a risk-sharing public entity risk pool comprised of various school districts and other related public educational entities within the State of Colorado. The Pool provides the School with general, property and vehicle liability insurance. During the year ended June 30, 2015, the School paid \$7,270 in premiums to the Pool. In the event of the impairment or insolvency of the Pool the School may be assessed such amounts as may be necessary to ensure the solvency of the Pool. The likelihood of an event of this type occurring is remote.

The Colorado Compensation Insurance Authority provides worker's compensation insurance coverage. Commercial insurance companies are used to provide coverage for life and other insurance programs maintained by the School.

NOTE H – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the Amendment. However, the School has made certain interpretations of the Amendment's language in order to determine its compliance.

NOTE I – RELATED PARTY

The School contracts with Montrose County School District RE-1J to provide payroll and other services. During fiscal year 2015, the School paid the District \$23,656 for those services, and reimbursed the District \$963,406 for payroll, postage, and insurance costs. As of June 30, 2015, the School owed the District \$1,887 for services.

NOTE J – SUBLEASE

The School constructed its new facility through the Building Excellent Schools Today (BEST) grant program. Under the terms of this grant agreement, the School together with Montrose County School District RE-1J entered into a sub-lease agreement with the State of Colorado for the real and constructed property acquired by Vista Charter School through the grant program. Title to the property is held by the Trustee until the State has paid all principal and interest on its lease agreement used to fund the grant program. Once the State has fulfilled the terms of the lease, title to the property will be conveyed to the State and then conveyed to Vista Charter School. The School does not owe additional rents or lease payments in association with this lease agreement and is only required to use the facilities for the purposes intended in the grant agreement. The lease renews annually in compliance with Section 20 Article X of the state constitution.

Vista Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE K – CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2014, the School retroactively changed its method of accounting for pension contributions and related obligations to conform to GASBS No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*. Under the new accounting method, the School accrues a net pension liability related to its participation in a multiple employer cost sharing retirement plan. The effect of the change decreased beginning net position for 2014 by \$1,565,064, from \$7,365,107 to \$5,800,043.

Vista Charter School

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GOVERNMENTAL FUND

Year ended June 30, 2015

| | Budget | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|-------------|-------------|--------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 93,920 | \$ 93,920 | \$ 113,684 | \$ 19,764 |
| State sources | 1,099,431 | 1,099,431 | 1,123,597 | 24,166 |
| Total revenues | 1,193,351 | 1,193,351 | 1,237,281 | 43,930 |
| Expenditures | | | | |
| Instructional services | 661,701 | 661,701 | 648,981 | 12,720 |
| Instructional staff services | 349,175 | 349,175 | 453,611 | (104,436) |
| Business support | 79,964 | 79,964 | 62,832 | 17,132 |
| Capital outlay | 10,000 | 10,000 | 11,084 | (1,084) |
| Reserve | 45,300 | 45,300 | - | 45,300 |
| Appropriated fund balance | 1,788,363 | 1,788,363 | - | 1,788,363 |
| Total expenditures | 2,934,503 | 2,934,503 | 1,176,508 | 1,757,995 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | | | | |
| | (1,741,152) | (1,741,152) | 60,773 | 1,801,925 |
| Fund balance beginning of year | 1,741,152 | 1,741,152 | 1,741,152 | - |
| Fund balance end of year | \$ - | \$ - | \$ 1,801,925 | \$ 1,801,925 |

Vista Charter School

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2015

| | Employer proportion of NPL | Employer proportionate share of NPL | Employer covered payroll | Employer proportionate share of NPL as a percentage of covered payroll | Pension plan's fiduciary net position as a percentage of total pension liability |
|--------------------------|----------------------------------|---|--------------------------------|---|---|
| <u>Measurement date:</u> | | | | | |
| December 31, 2014 | 0.01273% | \$ 1,725,979 | \$ 533,502 | 324% | 63% |

Vista Charter School

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2015

| | <u>Required employer contribution</u> | <u>Employer contributions recognized by the plan</u> | <u>Difference</u> | <u>Employer covered payroll</u> | <u>Contributions as a percentage of employer covered payroll</u> |
|---------------|---|--|-------------------|---|--|
| June 30, 2015 | \$ 98,450 | \$ 98,450 | \$ - | \$ 549,783 | 18% |