

**CHALLENGE TO EXCELLENCE CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**June 30, 2011**

**CHALLENGE TO EXCELLENCE CHARTER SCHOOL**

**ROSTER OF SCHOOL OFFICIALS**

**June 30, 2011**

**GOVERNING COUNCIL**

|                   |                  |
|-------------------|------------------|
| Chairperson       | Julia Cooper     |
| Vice-Chairperson  | Paulette Gleason |
| Financial Officer | John Teska       |
| Secretary         | Lou Ann Woodward |
| Member            | Scott Powers     |
| Member            | Brandon Warren   |

**SCHOOL MANAGEMENT**

Linda Parker, Principal

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Governing Council  
Challenge to Excellence Charter School  
Parker, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Challenge to Excellence Charter School, as listed in the table of contents. These financial statements are the responsibility of the Challenge to Excellence Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Challenge to Excellence Charter School as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 21, 2011

# **Challenge to Excellence**

## Management's Discussion and Analysis

### Fiscal Year Ending June 30, 2011

As management of Challenge to Excellence (C2E), we offer readers of C2E's basic financial statements this narrative and analysis of the financial activities of Challenge to Excellence for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

#### **Financial Highlights**

The year ended June 30, 2011 was the ninth year of operations for C2E. The net assets for for fiscal year ending June 30, 2011 are \$1,315,223

The operations of C2E are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$2,960,724.

C2E has continued to budget and operate in a fiscally conservative manner, resulting in an increase in the governmental fund balance from \$2,259,712 to \$2,342,723 an increase of \$92,011.

#### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to C2E's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of C2E's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all C2E's assets and liabilities, with the difference between the two being reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of C2E is improving or deteriorating. The statement of activities presents information showing how C2E's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of C2E that are primarily supported by the per pupil operating revenue passed from Douglas County School District. These activities include instruction and supporting services expense.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. C2E keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

***Notes to Financial Statements***

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

**Government-wide Financial Analysis**

As noted previously, net assets may serve over time as a useful indicator of C2E’s financial position. For the year ended June 30, 2011, C2E’s combined assets exceeded liabilities by \$1,315,223. \$103,000 of the combined funds is restricted to comply with Article X, section 20 of the Colorado Constitution, known as the TABOR Amendment. \$517,045 is restricted for debt service and \$130,005 is restricted for building repairs. Accordingly, these funds are not available to satisfy the general operating expenses of the school. Of C2E’s net assets \$2,239,723 is unrestricted and is available to meet C2E’s ongoing financial obligations.

| <b>Net Assets</b> |  | <b>2010-2011</b> | <b>2009-2010</b> |
|-------------------|--|------------------|------------------|
|                   | <b>Assets</b>  |                  |                  |
|                   | Cash   | \$2,386,620      | \$2,539,282      |
|                   | Accounts Receivable Net of Allowance for Doubtful Accounts | 3,756            |                  |
|                   | Restricted Cash and Investments                            | 675,496          | 675,447          |
|                   | Prepaid Expenses   | 106,290          | 19,674           |
|                   | Debt Issuance Cost net of accumulated amortization         | 294,327          | 305,647          |
|                   | Capital Assets not being Depreciated                       | 1,010,419        | 1,010,419        |
|                   | Capital Assets, Net of Accumulated Depreciation            | <u>3,775,961</u> | <u>3,942,558</u> |
|                   |  |                  |                  |
|                   | <b>Total Assets</b>  | \$8,252,869      | \$8,493,027      |
|                   |  |                  |                  |

| <b>Liabilities</b> |   |                  |                  |
|--------------------|---|------------------|------------------|
|                    | Accounts Payable                                | 26,001           | \$194,292        |
|                    | Accrued Salaries and Benefits                   | 127,942          | 113,952          |
|                    | Accrued Interest Payable                        | 28,446           | 28,670           |
|                    | Due within One Year                             | 145,000          | 140,000          |
|                    | Due in More than One Year                       | <u>6,610,257</u> | <u>6,742,729</u> |
|                    |   |                  |                  |
|                    | <b>Total Liabilities</b>                        | \$6,937,646      | \$7,219,643      |
|                    |   |                  |                  |
| <b>Net Assets</b>  |   |                  |                  |
|                    | Invested in Capital Assets, Net or Related Debt | (1,674,550)      | \$(1,624,105)    |
|                    | Restricted for Debt Service                     | 517,045          | 516,753          |
|                    | Restricted for Building Repairs                 | 130,005          | 130,024          |
|                    | Restricted for Capital Purposes                 |                  | 139,266          |
|                    | Restricted for Emergencies                      | 103,000          | 112,000          |
|                    | Unrestricted                                    | 2,239,723        | 1,999,446        |
|                    |   |                  |                  |
|                    | <b>Total Net Assets</b>                         | \$1,315,223      | \$1,273,384      |

| <b>Change in Net Assets</b> |  | <b>2010-2011</b> | <b>2009-2011</b> |
|-----------------------------|--|------------------|------------------|
| <b>Revenues</b>             |  |                  |                  |
|                             | Charges for Services                           | \$244,516        | 185,029          |
|                             | Per Pupil Revenue                              | 2,960,724        | 2,952,180        |
|                             | Mill Levy                                      | 153,334          | 147,544          |
|                             | Contributions not Related to Specific Programs | 7,316            | 162,890          |
|                             | Capital Construction Funding                   | 40,759           | 160,658          |
|                             | Investment Earnings                            | 8,850            | 20,429           |
|                             | Miscellaneous Income                           | 1,600            | 91,049           |
|                             | <b>Total Revenue</b>                           | \$3,417,099      | \$3,719,779      |
|                             |  |                  |                  |
| <b>Expenses</b>             |  |                  |                  |
|                             | Instruction                                    | \$2,045,527      | \$1,990,827      |
|                             | Support Services                               | 803,598          | 813,778          |
|                             | Building Corporation                           | <u>\$526,135</u> | <u>530,656</u>   |
|                             | <b>Total Expenses</b>                          | \$3,375,260      | \$3,335,261      |
|                             |  |                  |                  |
|                             | <b>Increase/(Decrease) in net assets</b>       | \$41,839         | \$384,518        |
|                             | <b>Net Assets, Beginning</b>                   | \$1,273,384      | \$888,866        |
|                             |  |                  |                  |
|                             | <b>Net Assets, Ending</b>                      | \$1,315,223      | \$1,273,384      |

## **Financial Analysis of C2E's Funds**

### **Governmental funds**

The focus of Challenge to Excellence's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing C2E's financing requirements. In particular, unassigned fund balance may serve as a useful measure of C2E's net resources available to spend at the end of the fiscal year. As of the end of the current fiscal year C2E's general fund reported an ending fund balance of \$2,342,723.

### **General Fund Budgetary Highlights**

C2E budgeted for General Fund expenditures of \$3,486,130 the year ended June 30, 2011. Actual expenditures were \$3,325,007.

There were budget amendments during the year, which reflected a change in the anticipated funding levels due to a PPR rescission at the state level.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

C2E currently leases the permanent facility from the C2E Building Corporation for the amount of the bond payments. C2E's investment in capital assets as of June 30, 2011, amounts to \$4,786,380. This investment in capital assets consists of the facility and equipment. The detail of this investment is in Note 4 to the financial statements.

#### **Long-term debt**

As of June 30, 2011, the C2E had debt due within one year of \$145,000 for the bond payments on the permanent facility and total debt in the amount of \$6,755,257.

### **Economic Factors and Next Year's Budget**

The primary factor driving the budget for C2E is student enrollment. Full time enrollment for the 2010-2011 school year was 452. The enrollment projected for the 2011-2012 school year is expected to be 475. This factor was considered in preparing C2E's budget for 2011-2012.

## **BASIC FINANCIAL STATEMENTS**

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET ASSETS

June 30, 2011

|  | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS-TYPE<br/>ACTIVITIES</u> | <u>TOTAL</u>        |
|--|------------------------------------|-------------------------------------|---------------------|
| <b>ASSETS</b>  |                                    |                                     |                     |
| Cash and Investments                                 | \$ 2,386,620                       | \$ -                                | \$ 2,386,620        |
| Restricted Cash and Investments                      | -                                  | 675,496                             | 675,496             |
| Accounts Receivable                                  | 3,756                              | -                                   | 3,756               |
| Prepaid Expenses                                     | 106,290                            | -                                   | 106,290             |
| Debt Issuance Costs, Net of Accumulated Amortization | -                                  | 294,327                             | 294,327             |
| Capital Assets, Not Being Depreciated                | -                                  | 1,010,419                           | 1,010,419           |
| Capital Assets, Net of Accumulated Depreciation      | <u>72,219</u>                      | <u>3,703,742</u>                    | <u>3,775,961</u>    |
| <b>TOTAL ASSETS</b>                                  | <u>2,568,885</u>                   | <u>5,683,984</u>                    | <u>8,252,869</u>    |
| <b>LIABILITIES</b>                                   |                                    |                                     |                     |
| Accounts Payable                                     | 26,001                             | -                                   | 26,001              |
| Accrued Salaries and Benefits                        | 127,942                            | -                                   | 127,942             |
| Accrued Interest Payable                             | -                                  | 28,446                              | 28,446              |
| Noncurrent Liabilities                               |                                    |                                     |                     |
| Due Within One Year                                  | -                                  | 145,000                             | 145,000             |
| Due in More Than One Year                            | <u>-</u>                           | <u>6,610,257</u>                    | <u>6,610,257</u>    |
| <b>TOTAL LIABILITIES</b>                             | <u>153,943</u>                     | <u>6,783,703</u>                    | <u>6,937,646</u>    |
| <b>NET ASSETS</b>                                    |                                    |                                     |                     |
| Invested in Capital Assets, Net of Related Debt      | 72,219                             | (1,746,769)                         | (1,674,550)         |
| Restricted for Debt Service                          | -                                  | 517,045                             | 517,045             |
| Restricted for Building Repairs                      | -                                  | 130,005                             | 130,005             |
| Restricted for Emergencies                           | 103,000                            | -                                   | 103,000             |
| Unrestricted   | <u>2,239,723</u>                   | <u>-</u>                            | <u>2,239,723</u>    |
| <b>TOTAL NET ASSETS</b>                              | <u>\$ 2,414,942</u>                | <u>\$ (1,099,719)</u>               | <u>\$ 1,315,223</u> |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

| FUNCTIONS/PROGRAMS                                   | EXPENSES            | PROGRAM<br>REVENUES<br>CHARGES FOR<br>SERVICES | NET (EXPENSES) REVENUES AND<br>CHANGE IN NET ASSETS |                             |                     |
|--|---------------------|--|---|-----------------------------|---------------------|
|  |                     |  | GOVERNMENTAL<br>ACTIVITIES                          | BUSINESS-TYPE<br>ACTIVITIES | TOTAL               |
| <b>PRIMARY GOVERNMENT</b>                            |                     |  |   |                             |                     |
| <b>Governmental Activities</b>                       |                     |  |   |                             |                     |
| Instruction  | \$ 2,045,527        | \$ 244,516                                     | \$ (1,801,011)                                      | \$ -                        | \$ (1,801,011)      |
| Supporting Services                                  | 803,598             | -  | (803,598)   | -                           | (803,598)           |
| Total Governmental Activities                        | 2,849,125           | 244,516  | (2,604,609)   | -                           | (2,604,609)         |
| <b>Business-Type Activities</b>                      |                     |  |   |                             |                     |
| Building Corporation                                 | 526,135             | -  | -   | (526,135)                   | (526,135)           |
| <b>TOTAL PRIMARY GOVERNMENT</b>                      | <b>\$ 3,375,260</b> | <b>\$ 244,516</b>                              | <b>(2,604,609)</b>                                  | <b>(526,135)</b>            | <b>(3,130,744)</b>  |
| <b>GENERAL REVENUES</b>                              |                     |  |   |                             |                     |
| Per Pupil Revenue                                    |                     |  | 2,960,724   | -                           | 2,960,724           |
| Mill Levy Override                                   |                     |  | 153,334   | -                           | 153,334             |
| Capital Construction                                 |                     |  | 40,759  | -                           | 40,759              |
| Contributions not Restricted to<br>Specific Programs |                     |  | 7,316   | -                           | 7,316               |
| Investment Income                                    |                     |  | 8,769   | 81                          | 8,850               |
| Other  |                     |  | 1,600   | -                           | 1,600               |
| <b>TRANSFERS</b>                                     |                     |  | <b>(484,010)</b>                                    | <b>484,010</b>              | <b>-</b>            |
| <b>TOTAL GENERAL REVENUES<br/>AND TRANSFERS</b>      |                     |  | <b>2,688,492</b>                                    | <b>484,091</b>              | <b>3,172,583</b>    |
| <b>CHANGE IN NET ASSETS</b>                          |                     |  | <b>83,883</b>                                       | <b>(42,044)</b>             | <b>41,839</b>       |
| <b>NET ASSETS, Beginning</b>                         |                     |  | <b>2,331,059</b>                                    | <b>(1,057,675)</b>          | <b>1,273,384</b>    |
| <b>NET ASSETS, Ending</b>                            |                     |  | <b>\$ 2,414,942</b>                                 | <b>\$ (1,099,719)</b>       | <b>\$ 1,315,223</b> |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2011

|   | <u>GENERAL</u>             |
|---|----------------------------|
| <b>ASSETS</b>                             |                            |
| Cash and Investments                      | \$ 2,386,620               |
| Accounts Receivable                       | 3,756                      |
| Prepaid Expenditures                      | <u>106,290</u>             |
| <b>TOTAL ASSETS</b>                       | <b>\$ <u>2,496,666</u></b> |
| <b>LIABILITIES AND FUND BALANCE</b>       |                            |
| <b>LIABILITIES</b>                        |                            |
| Accounts Payable                          | \$ 26,001                  |
| Accrued Salaries and Benefits             | <u>127,942</u>             |
| <b>TOTAL LIABILITIES</b>                  | <b><u>153,943</u></b>      |
| <b>FUND BALANCE</b>                       |                            |
| Nonspendable Prepaid Expenditures         | 106,290                    |
| Restricted for Emergencies                | 103,000                    |
| Unrestricted, Unassigned                  | <u>2,133,433</u>           |
| <b>TOTAL FUND BALANCE</b>                 | <b><u>2,342,723</u></b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b> | <b>\$ <u>2,496,666</u></b> |

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

|  |                            |
|--|----------------------------|
| Total Fund Balance of the Governmental Fund  | \$ 2,342,723               |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | <u>72,219</u>              |
| <b>Total Net Assets of Governmental Activities</b>   | <b>\$ <u>2,414,942</u></b> |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2011

|  | <u>GENERAL</u> |
|--|----------------|
| REVENUES                               |                |
| Local Sources                          |                |
| Per Pupil Revenue                      | \$ 2,960,724   |
| Mill Levy Override                     | 153,334        |
| Student Fees and Extended Day Programs | 244,516        |
| Contributions                          | 7,316          |
| Investment Income                      | 8,769          |
| Other                                  | 1,600          |
| State Sources                          |                |
| Capital Construction                   | 40,759         |
| TOTAL REVENUES                         | 3,417,018      |
| EXPENDITURES                           |                |
| Instruction                            | 2,000,358      |
| Supporting Services                    | 1,279,480      |
| Capital Outlay                         | 45,169         |
| TOTAL EXPENDITURES                     | 3,325,007      |
| NET CHANGE IN FUND BALANCE             | 92,011         |
| FUND BALANCE, Beginning                | 2,250,712      |
| FUND BALANCE, Ending                   | \$ 2,342,723   |

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

|   |           |
|---|-----------|
| Net Change in Fund Balance of the Governmental Fund   | \$ 92,011 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents depreciation expense in the current year. | (8,128)   |
| Change in Net Assets of Governmental Activities   | \$ 83,883 |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2011

|  | <u>BUILDING<br/>CORPORATION</u> |
|--|---------------------------------|
| ASSETS   |                                 |
| CURRENT ASSETS                                       |                                 |
| Restricted Cash and Investments                      | \$ <u>675,496</u>               |
| TOTAL CURRENT ASSETS                                 | <u>675,496</u>                  |
| NONCURRENT ASSETS                                    |                                 |
| Debt Issuance Costs, Net of Accumulated Amortization | 294,327                         |
| Capital Assets, Not Being Depreciated                | 1,010,419                       |
| Capital Assets, Net of Accumulated Depreciation      | <u>3,703,742</u>                |
| TOTAL NONCURRENT ASSETS                              | <u>5,008,488</u>                |
| TOTAL ASSETS   | <u>5,683,984</u>                |
| LIABILITIES  |                                 |
| CURRENT LIABILITIES                                  |                                 |
| Accrued Interest Payable                             | 28,446                          |
| Loan Payable, Current Portion                        | <u>145,000</u>                  |
| TOTAL CURRENT LIABILITIES                            | 173,446                         |
| NONCURRENT LIABILITIES                               |                                 |
| Loan Payable   | <u>6,610,257</u>                |
| TOTAL LIABILITIES                                    | <u>6,783,703</u>                |
| NET ASSETS   |                                 |
| Invested in Capital Assets, Net of Related Debt      | (1,746,769)                     |
| Restricted for Debt Service                          | 517,045                         |
| Restricted for Building Repairs                      | <u>130,005</u>                  |
| TOTAL NET ASSETS                                     | <u>\$ (1,099,719)</u>           |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2011

|                          | <u>BUILDING<br/>CORPORATION</u> |
|--------------------------|---------------------------------|
| OPERATING REVENUES       |                                 |
| Lease Revenue            | \$ <u>484,010</u>               |
| TOTAL OPERATING REVENUES | <u>484,010</u>                  |
| OPERATING EXPENSES       |                                 |
| Depreciation             | 158,469                         |
| Amortization             | 11,320                          |
| Debt Service             |                                 |
| Interest                 | <u>356,346</u>                  |
| TOTAL OPERATING EXPENSES | <u>526,135</u>                  |
| OPERATING LOSS           | (42,125)                        |
| NONOPERATING REVENUES    |                                 |
| Investment Income        | <u>81</u>                       |
| CHANGE IN NET ASSETS     | (42,044)                        |
| NET ASSETS, Beginning    | <u>(1,057,675)</u>              |
| NET ASSETS, Ending       | \$ <u><u>(1,099,719)</u></u>    |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents

|   | <u>BUILDING<br/>CORPORATION</u> |
|---|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |
| Lease Payments Received   | \$ 484,010                      |
| Loan Interest and Fees Paid   | (344,042)                       |
| Loan Principal Paid   | <u>(140,000)</u>                |
| Net Cash Provided (Used) by Operating Activities  | <u>(32)</u>                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |
| Investment Income Received  | <u>81</u>                       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | 49                              |
| <b>CASH AND CASH EQUIVALENTS, Beginning</b>   | <u>675,447</u>                  |
| <b>CASH AND CASH EQUIVALENTS, Ending</b>  | <u>\$ 675,496</u>               |
| <b>RECONCILIATION OF OPERATING LOSS TO<br/>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                                 |
| Operating Loss  | \$ (42,125)                     |
| Adjustments to Reconcile Operating Loss to<br>Net Cash Provided (Used) by Operating Activities  |                                 |
| Depreciation Expense  | 158,469                         |
| Amortization of Issuance Costs  | 11,320                          |
| Amortization of Premium   | (1,135)                         |
| Amortization of Loss on Refunding   | 13,663                          |
| Changes in Assets and Liabilities   |                                 |
| Accrued Interest Payable  | (224)                           |
| Loan Payable  | <u>(140,000)</u>                |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ (32)</u>                  |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the School.

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

The School is a component unit of the Douglas County School District (the “District”). The School’s charter was granted by the District and the majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

The School reports the following major funds:

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

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

**Assets, Liabilities and Net Assets/Fund Balance**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*Capital Assets* - Capital assets, which include land, buildings and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined 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 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 costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized.

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

|           |              |
|-----------|--------------|
| Buildings | 30 years     |
| Equipment | 5 - 15 years |

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

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt is reported as a liability in the applicable statement of net assets. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize the face 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.

*Net Assets/Fund Balance* - In the government-wide and fund financial statements, net assets and fund balance are restricted when constraints placed on the use of resources are externally imposed. The School has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both restricted and unrestricted fund balances are available, the School uses restricted fund balance first.

**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 participates in the District's risk management programs for these risks of loss.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Accountability**

At June 30, 2011, the Corporation had negative net assets of \$1,099,719. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

A summary of cash and investments at June 30, 2011, follows:

|             |                            |
|-------------|----------------------------|
| Deposits    | \$ 121,143                 |
| Investments | <u>2,940,973</u>           |
| Total       | <u><u>\$ 3,062,116</u></u> |

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

|                                 |                            |
|---------------------------------|----------------------------|
| Cash and Investments            | \$ 2,386,620               |
| Restricted Cash and Investments | <u>675,496</u>             |
| Total                           | <u><u>\$ 3,062,116</u></u> |

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk. The School's investment policy follows State statutes.

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

*Local Government Investment Pool* - At June 30, 2011, the School had \$2,265,477 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

*Interest Rate Risk* - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organizations ("NRSRO"). At June 30, 2011, the Corporation had \$675,496 invested in a money market fund rated AAAM by Standard and Poor's.

**Restricted Cash and Investments**

Cash and investments of \$675,496 have been restricted by the Corporation for debt service and building repairs.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, is summarized below.

|   | Balances<br><u>6/30/10</u> | <u>Additions</u>  | <u>Deletions</u> | Balances<br><u>6/30/11</u> |
|---|----------------------------|-------------------|------------------|----------------------------|
| <b>Governmental Activities</b>              |                            |                   |                  |                            |
| Capital Assets, Being Depreciated           |                            |                   |                  |                            |
| Equipment                                   | \$ 96,099                  | \$ -              | \$ -             | \$ 96,099                  |
| Less Accumulated Depreciation               |                            |                   |                  |                            |
| Equipment                                   | <u>(15,752)</u>            | <u>(8,128)</u>    | <u>-</u>         | <u>(23,880)</u>            |
| Governmental Activities Capital Assets, Net | <u>\$ 80,347</u>           | <u>\$ (8,128)</u> | <u>\$ -</u>      | <u>\$ 72,219</u>           |

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 4: CAPITAL ASSETS (Continued)**

|  | <u>Balances</u><br>6/30/10 | <u>Additions</u>           | <u>Deletions</u>   | <u>Balances</u><br>6/30/11 |
|--|----------------------------|----------------------------|--------------------|----------------------------|
| <b>Business-Type Activities</b>              |                            |                            |                    |                            |
| Capital Assets, Not Being Depreciated        |                            |                            |                    |                            |
| Land   | \$ 1,010,419               | \$ -                       | \$ -               | \$ 1,010,419               |
| Capital Assets, Being Depreciated            |                            |                            |                    |                            |
| Buildings                                    | 4,754,070                  | -                          | -                  | 4,754,070                  |
| Less Accumulated Depreciation                |                            |                            |                    |                            |
| Buildings                                    | <u>(891,859)</u>           | <u>(158,469)</u>           | <u>-</u>           | <u>(1,050,328)</u>         |
| Total Capital Assets, Being Depreciated, Net | <u>3,862,211</u>           | <u>(158,469)</u>           | <u>-</u>           | <u>3,703,742</u>           |
| Business-Type Activities Capital Assets, Net | <u><b>\$ 4,872,630</b></u> | <u><b>\$ (158,469)</b></u> | <u><b>\$ -</b></u> | <u><b>\$ 4,714,161</b></u> |

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2011:

|                                 | <u>Balances</u><br>6/30/10 | <u>Additions</u>   | <u>Payments</u>          | <u>Balances</u><br>6/30/11 | <u>Due Within</u><br><u>One Year</u> |
|---------------------------------|----------------------------|--------------------|--------------------------|----------------------------|--------------------------------------|
| <b>Business-Type Activities</b> |                            |                    |                          |                            |                                      |
| Building Loan                   | \$ 7,180,000               | \$ -               | \$ 140,000               | \$ 7,040,000               | \$ 145,000                           |
| Loan Premium                    | 30,639                     | -                  | 1,135                    | 29,504                     | -                                    |
| Loss on Refunding               | <u>(327,910)</u>           | <u>-</u>           | <u>(13,663)</u>          | <u>(314,247)</u>           | <u>-</u>                             |
| Total                           | <u><b>\$ 6,882,729</b></u> | <u><b>\$ -</b></u> | <u><b>\$ 127,472</b></u> | <u><b>\$ 6,755,257</b></u> | <u><b>\$ 145,000</b></u>             |

On August 1, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$7,545,000 Charter School Revenue Refunding Bonds, Series 2007, to advance refund CECFA's outstanding Series 2004 Bonds. Proceeds of the Series 2004 Bonds were used by the Corporation to construct the School's building. The School is obligated under a lease agreement to make monthly lease payments to the Corporation for use of the building. The 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 3.7% to 3.75%. Bond interest payments are due semi-annually on June 1 and December 1. Principal payments are due annually on June 1, through 2037.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 5: LONG-TERM DEBT (Continued)**

Future debt service requirements are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u>           | <u>Interest</u>            | <u>Total</u>                |
|----------------------------|----------------------------|----------------------------|-----------------------------|
| 2012                       | \$ 145,000                 | \$ 338,652                 | \$ 483,652                  |
| 2013                       | 150,000                    | 332,852                    | 482,852                     |
| 2014                       | 155,000                    | 326,852                    | 481,852                     |
| 2015                       | 165,000                    | 320,652                    | 485,652                     |
| 2016                       | 170,000                    | 313,888                    | 483,888                     |
| 2017 - 2021                | 965,000                    | 1,454,770                  | 2,419,770                   |
| 2022 - 2026                | 1,220,000                  | 1,206,750                  | 2,426,750                   |
| 2027 - 2031                | 1,575,000                  | 867,500                    | 2,442,500                   |
| 2032 - 2036                | 2,025,000                  | 431,250                    | 2,456,250                   |
| 2037                       | 470,000                    | 23,500                     | 493,500                     |
| Total                      | <b><u>\$ 7,040,000</u></b> | <b><u>\$ 5,616,666</u></b> | <b><u>\$ 12,656,666</u></b> |

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

*Plan Description* - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post retirement annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by contacting Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

*Funding Policy* - The contribution requirements of members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8%. The School's contribution rate for calendar years 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% of covered salaries, respectively. A portion of the School's contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the years ended June 30, 2011, 2010 and 2009 were \$198,382, \$196,566 and \$171,788, respectively, equal to the required contributions for each year.

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS**

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

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)**

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered 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 CRS, as amended. The apportionment of the contributions of the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2011, 2010 and 2009 was \$14,118, \$14,962 and \$14,018, respectively, equal to the required amounts for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by 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, 2011, 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.

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2011, the emergency reserve, of \$103,000, was reported as restricted fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

CHALLENGE TO EXCELLENCE CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

|  | <u>ORIGINAL<br/>BUDGET</u> | <u>FINAL<br/>BUDGET</u> | <u>ACTUAL</u>       | VARIANCE<br>Positive<br>(Negative) |
|--|----------------------------|-------------------------|---------------------|------------------------------------|
| <b>REVENUES</b>                        |                            |                         |                     |                                    |
| Local Sources                          |                            |                         |                     |                                    |
| Per Pupil Revenue                      | \$ 2,919,445               | \$ 2,873,520            | \$ 2,960,724        | \$ 87,204                          |
| Mill Levy Override                     | 160,805                    | 160,805                 | 153,334             | (7,471)                            |
| Student Fees and Extended Day Programs | 144,923                    | 144,923                 | 244,516             | 99,593                             |
| Contributions                          | 10,000                     | 10,000                  | 7,316               | (2,684)                            |
| Investment Income                      | 25,000                     | 20,000                  | 8,769               | (11,231)                           |
| Other                                  | 37,470                     | 37,470                  | 1,600               | (35,870)                           |
| <b>Total Local Sources</b>             | <u>3,297,643</u>           | <u>3,246,718</u>        | <u>3,376,259</u>    | <u>129,541</u>                     |
| State Sources                          |                            |                         |                     |                                    |
| Capital Construction                   | -                          | -                       | 40,759              | 40,759                             |
| <b>TOTAL REVENUES</b>                  | <u>3,297,643</u>           | <u>3,246,718</u>        | <u>3,417,018</u>    | <u>170,300</u>                     |
| <b>EXPENDITURES</b>                    |                            |                         |                     |                                    |
| Salaries                               | 1,588,470                  | 1,604,601               | 1,586,205           | 18,396                             |
| Benefits                               | 525,648                    | 495,058                 | 440,160             | 54,898                             |
| Purchased Professional Services        | 34,850                     | 83,798                  | 93,570              | (9,772)                            |
| Purchased Property Services            | 580,033                    | 615,356                 | 598,860             | 16,496                             |
| Other Purchased Services               | 443,742                    | 394,299                 | 432,420             | (38,121)                           |
| Supplies and Materials                 | 238,299                    | 238,299                 | 124,146             | 114,153                            |
| Property                               | 46,350                     | 46,350                  | 45,169              | 1,181                              |
| Other                                  | 8,369                      | 8,369                   | 4,477               | 3,892                              |
| <b>TOTAL EXPENDITURES</b>              | <u>3,465,761</u>           | <u>3,486,130</u>        | <u>3,325,007</u>    | <u>161,123</u>                     |
| <b>NET CHANGE IN FUND BALANCE</b>      | (168,118)                  | (239,412)               | 92,011              | 331,423                            |
| <b>FUND BALANCE, Beginning</b>         | <u>2,345,410</u>           | <u>2,129,555</u>        | <u>2,250,712</u>    | <u>121,157</u>                     |
| <b>FUND BALANCE, Ending</b>            | <u>\$ 2,177,292</u>        | <u>\$ 1,890,143</u>     | <u>\$ 2,342,723</u> | <u>\$ 452,580</u>                  |

See the accompanying Independent Auditors' Report.

CHALLENGE TO EXCELLENCE CHARTER SCHOOL  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2011

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

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

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

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