

DCS MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2016



RECEIVED

By Justin L. Smith at 10:25 am, Nov 08, 2016

TABLE OF CONTENTS

PAGE

Independent Auditors' Report	
Management's Discussion and Analysis	i - vi
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Statement of Net Position - Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	6
Statement of Cash Flows - Proprietary Fund	7
Notes to Financial Statements	8 - 20
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability and Contributions	21
Budgetary Comparison Schedule - General Fund	22
Notes to Required Supplementary Information	23



Board of Directors
DCS Montessori Charter School
Castle Pines, 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 DCS Montessori Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the DCS Montessori Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters (Required Supplementary Information)

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

Ernst & Young LLP

October 18, 2016

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

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

Financial Highlights

The combined liabilities of the DCS Montessori Charter School and the Montessori Educational Foundation of Douglas County exceeded its combined assets at the close of the most recent fiscal year by \$5,698,471, an increase of \$157,205 which is an improvement in the negative net position over the prior year. This is a negative net position and is primarily due to the implementation of the Governmental Accounting Standards Board Statement (GASB) 68, a pension related disclosure. The School is now required to recognize its proportionate share of the state wide unfunded pension obligation for School Districts.

The DCS Montessori Charter School general fund ending balance increased \$134,151 to \$1,115,500. This increase represents a 2.7% of annual General Fund revenue and 13.7% of beginning fund balance. The increase was primarily due to operating within the constraints of the School's annual operating budget.

Overview of Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DCS Montessori Charter School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the assets/deferred outflows of resources and liabilities/deferred inflows of resources being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial condition of the School is improving or deteriorating.

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

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

The government-wide statement of activities distinguishes functions/programs of the DCS Montessori Charter School supported primarily by State Per-Pupil Revenue (PPR) or property taxes passed through from the Douglas County School District RE-1. The governmental activities of the DCS Montessori Charter School include instruction and supporting services expense.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DCS Montessori Charter School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, in addition to balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The DCS Montessori Charter School maintains one individual governmental fund, the General Fund.

The DCS Montessori Charter School Board approves an annual adopted and revised budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget and shown on page 22.

Proprietary Fund The proprietary (the Foundation) fund shows a negative net position of (\$266,149). We can attribute this negative net position to the unfunded depreciation expense and the debt life cycle of a mortgage (more interest expense in early years). The overall net position of the Foundation improved again in FY 16. The increase of \$341,660 was primarily due to contributed capital of \$288,387 by the School. The Foundation's overall deficit position declined by 56% to a negative (\$266,149).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 8-20.

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. In the case of the DCS Montessori Charter School, liabilities exceeded assets by \$5,698,471 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$7,409,088, representing its proportionate share of the plan's net pension liability.

DCS Montessori Charter School and Foundation Net position:

	Governmental Activities June 30, 2016	Governmental Activities June 30, 2015	Business-Type Activities June 30, 2016	Business-Type Activities June 30, 2015
Current Assets	1,349,291	1,222,533	1,250,833	1,441,673
Other Assets	18,853	2,214	20,739	1,985
Capital Assets	36,022	35,105	6,851,031	6,656,059
Total Assets	1,404,166	1,259,852	8,122,603	8,099,717
Deferred Outflows of Resources	1,001,535	345,044	445,671	473,526
Current Liabilities	252,644	243,398	175,459	521,899
Other Liabilities	0	0	8,658,964	8,659,153
Net Pension Liability	7,409,088	6,495,668	0	0
Total Liabilities	7,661,732	6,739,066	8,834,423	9,181,052
Deferred Inflows of Resources	176,291	113,697	0	0
Net Position				
Net Inv. in Capital Assets	36,022	35,105	(1,362,262)	(1,874,568)
Restricted	152,000	135,000	960,999	1,038,494
Unrestricted	(5,620,344)	(5,417,972)	135,114	228,265
Total Net Position	(5,432,322)	(5,247,867)	(266,149)	(607,809)

DCS Montessori Foundation's restricted cash (13.9% of Foundation's assets) resides with the trustee. The Foundation's capital assets represent 84.3% of its Total Assets. The remaining Foundation assets represent inventory, prepaid expenses and accounts receivable. The School has set aside the required reserves and is Tabor compliant. 96.1% of the School's assets represent cash and investments. The School's liabilities include the net pension liability (96.7%), unearned revenue (1.4%), and accounts payable/accrued salaries and benefits (1.8%).

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

**DCS Montessori Charter School and Foundation Change in Net Position
For the Year Ended June 30, 2016:**

	Governmental Activities June 30, 2016	Governmental Activities June 30, 2015	Business-Type Activities June 30, 2016	Business-Type Activities June 30, 2015
Program Revenue:				
Charges for Services	\$ 1,689,233	\$ 1,497,778	\$0	\$0
Operating Grants and Contributions	18,173	10,583	0	0
Total Program Revenue	<u>1,707,406</u>	<u>1,508,361</u>	<u>0</u>	<u>0</u>
General Revenue:				
Per Pupil Revenue	2,929,021	2,681,123	0	0
Mill Levy Revenue	229,423	220,850	0	0
Capital Construction	108,205	67,514	0	0
Interest Earnings	6,071	5,413	12,250	4,371
Grants and Contributions				
Not Restricted	21,072	126	272,845	315,464
Miscellaneous	12,483	11,476	0	0
Total General Revenue	<u>3,306,275</u>	<u>2,986,502</u>	<u>285,095</u>	<u>319,835</u>
Total Revenue	<u>5,013,681</u>	<u>4,494,863</u>	<u>285,095</u>	<u>319,835</u>
Expenses:				
Current:				
Instruction	2,848,170	2,811,520	0	0
Supporting Services	1,416,470	936,097	0	0
Building Corporation	0	0	876,931	907,091
Total Expenses	<u>4,264,640</u>	<u>3,747,617</u>	<u>876,931</u>	<u>907,091</u>
Transfers In (Out)	<u>(933,496)</u>	<u>(647,622)</u>	<u>933,496</u>	<u>647,622</u>
Increase (Decrease) in Net Position	(184,455)	99,624	341,660	60,366
Beginning Net Position	<u>(5,247,867)</u>	<u>(5,347,491)</u>	<u>(607,809)</u>	<u>(668,175)</u>
Ending Net Position	<u>\$ (5,432,322)</u>	<u>\$ (5,247,867)</u>	<u>\$ (266,149)</u>	<u>\$ (607,809)</u>

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

Net position, which is a very good indicator of financial performance, decreased during FY 15/16 for the Governmental Activities/DCS Montessori Charter School by \$184,455. The decrease was primarily due to the increase in the Net Pension liability. Net position for the Business Type Activities/Foundation increased for the same period ending June 30, 2016 by \$341,660 primarily due to capital contributed by the School. On a combined basis, the net position improved by \$157,205.

Financial Analysis of the School's Funds

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

Governmental Funds The focus of the DCS Montessori Charter School's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the DCS Montessori Charter School's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of, or during, the fiscal year. As of June 30, 2016, the School's general fund reported an ending fund balance of \$1,115,500, an increase of 13.67% or \$134,151. The primary cause for the increase can be attributed to operating within the School's budget and a slight improvement in budgeted expenditures for Salaries and Benefits and student activity revenue.

Foundation – Business Type Activities Net position increased primarily because of contributed capital. The increase of \$341,660 in net position represents a 56% increase bringing the negative net position to (\$266,149).

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. Total FY 15/16 expenditure appropriations for the general fund were \$5,002,673 with actual expenditures of \$4,883,656 resulting in a positive variance of \$119,017.

Capital Asset and Debt Administration

Capital Assets Total capital assets of the Foundation including land totaled \$10,256,159. Total depreciation taken for the period ending 6/30/16 was \$249,154. Accumulated depreciation was \$3,405,128 which resulted in net capital assets of \$6,851,031. Asset additions included building improvements of \$453,975.

Long-term Debt The School participates in a long-term lease agreement with the Montessori Educational Foundation of Douglas County. Annual rental payments are made to the Foundation ranging from \$633,925 to \$728,812. The prior debt issued for the DCSM facility (2002) was refunded in July of 2012 with two major purposes: 1) To lower the annual debt service and, 2) To produce funding for the new Middle School Program's expansion and capital construction needs. As part of the refunding, a Project Fund of \$966,709 was created to support the construction of the new Middle School building. The project was completed during the year.

DCS Montessori Charter School (A component unit of the Douglas County
School District RE 1, of Douglas County, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

Additionally, to free-up funds for the Middle School Program's initial capital needs, the first three years of debt service was approximately \$50,000 lower than the average annual debt service for future years. The Foundation services the new debt with interest accruing at rates ranging from 2% to 5%. The debt matures in July 2037. Please refer to note 5 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

Enrollment and Per Pupil Revenue remain the key components driving the budget preparation process each year. Funding increases the last two years have helped to chip away at the State's unfunded negative factor. Increases in Capital Construction Funding will go a long way to support the School's facility lease expense. The State's economy continues to grow. Consequently we are optimistic and believe future funding increases will materialize. Enrollment for the School was 377, 383, 404, 405, 424 and 444 for FY11, FY12, FY13, FY14, FY15 and FY16 respectively. The enrollment excludes preschool.

The FY 2016/2017 adopted budget projects that DCS Montessori Charter School will increase the general fund ending fund balance by \$9,640 or 1%. This budget is based on a projected pupil count of 402.8.

Requests for Information

This financial report is designed to provide a general overview of the DCS Montessori Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to DCS Montessori Charter School, Janet von Russow, 311 Castle Pines Parkway, Castle Pines, CO 80108.

BASIC FINANCIAL STATEMENTS

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and Investments	\$ 1,349,291	\$ 118,696	\$ 1,467,987
Restricted Cash and Investments	-	1,132,137	1,132,137
Accounts Receivable	-	3,317	3,317
Inventory	-	15,413	15,413
Prepaid Expenses	18,853	2,009	20,862
Capital Assets, Not Being Depreciated	-	508,415	508,415
Capital Assets, Net of Accumulated Depreciation	36,022	6,342,616	6,378,638
TOTAL ASSETS	<u>1,404,166</u>	<u>8,122,603</u>	<u>9,526,769</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	1,001,535	-	1,001,535
Loss on Debt Refunding, Net of Accumulated Amortization	-	445,671	445,671
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,001,535</u>	<u>445,671</u>	<u>1,447,206</u>
LIABILITIES			
Accounts Payable	12,741	1,871	14,612
Accrued Salaries and Benefits	134,912	-	134,912
Unearned Revenues	104,991	-	104,991
Accrued Interest Payable	-	173,588	173,588
Noncurrent Liabilities			
Due Within One Year	-	265,000	265,000
Due in More Than One Year	-	8,393,964	8,393,964
Net Pension Liability	7,409,088	-	7,409,088
TOTAL LIABILITIES	<u>7,661,732</u>	<u>8,834,423</u>	<u>16,496,155</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	176,291	-	176,291
NET POSITION			
Net Investment in Capital Assets	36,022	(1,362,262)	(1,326,240)
Restricted for Debt Service	-	810,583	810,583
Restricted for Repair and Replacement	-	150,416	150,416
Restricted for Emergencies	152,000	-	152,000
Unrestricted	(5,620,344)	135,114	(5,485,230)
TOTAL NET POSITION	<u>\$ (5,432,322)</u>	<u>\$ (266,149)</u>	<u>\$ (5,698,471)</u>

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES

June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 2,848,170	\$ 1,667,248	\$ 18,173
Supporting Services	1,416,470	21,985	-
Total Governmental Activities	4,264,640	1,689,233	18,173
Business-Type Activities			
Foundation	876,931	-	-
TOTAL PRIMARY GOVERNMENT	\$ 5,141,571	\$ 1,689,233	\$ 18,173
GENERAL REVENUES			
Per Pupil Revenue			
District Mill Levy			
Capital Construction			
Grants and Contributions not Restricted to Specific Programs			
Investment Income			
Miscellaneous			
TRANSFERS			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET POSITION			
NET POSITION, Beginning			
NET POSITION, Ending			

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

NET (EXPENSE) REVENUE AND
CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (1,162,749)	\$ -	\$ (1,162,749)
<u>(1,394,485)</u>	<u>-</u>	<u>(1,394,485)</u>
(2,557,234)	-	(2,557,234)
<u>-</u>	<u>(876,931)</u>	<u>(876,931)</u>
<u>(2,557,234)</u>	<u>(876,931)</u>	<u>(3,434,165)</u>
2,929,021	-	2,929,021
229,423	-	229,423
108,205	-	108,205
21,072	272,845	293,917
6,071	12,250	18,321
12,483	-	12,483
<u>(933,496)</u>	<u>933,496</u>	<u>-</u>
<u>2,372,779</u>	<u>1,218,591</u>	<u>3,591,370</u>
(184,455)	341,660	157,205
<u>(5,247,867)</u>	<u>(607,809)</u>	<u>(5,855,676)</u>
<u>\$ (5,432,322)</u>	<u>\$ (266,149)</u>	<u>\$ (5,698,471)</u>

DCS MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,349,291
Prepaid Expenditures	<u>18,853</u>
TOTAL ASSETS	\$ <u>1,368,144</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 12,741
Accrued Salaries and Benefits	134,912
Unearned Revenues	<u>104,991</u>
TOTAL LIABILITIES	<u>252,644</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	18,853
Restricted for Emergencies	152,000
Unrestricted, Unassigned	<u>944,647</u>
TOTAL FUND BALANCE	<u>1,115,500</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>1,368,144</u>

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

Total Fund Balance of the Governmental Fund	\$ 1,115,500
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	36,022
Long-term liabilities and related items, including net pension liability (\$7,409,088), deferred outflows of resources \$1,001,535, and deferred inflows of resources (\$176,291), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(6,583,844)</u>
Total Net Position of Governmental Activities	\$ <u>(5,432,322)</u>

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

DCS MONTESSORI CHARTER SCHOOL

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

June 30, 2016

	<u>GENERAL</u>
REVENUES	
Local Sources	
Per Pupil Revenue	\$ 2,929,021
District Mill Levy	229,423
Student Fees and Activities	1,667,248
Contributions and Fundraising	21,072
Rental Income	21,985
Investment Income	6,071
Miscellaneous	12,483
State Sources	
Capital Construction	108,205
Grants	16,693
Federal Sources	
Grants	1,480
	<hr/>
TOTAL REVENUES	5,013,681
	<hr/>
EXPENDITURES	
Instruction	2,848,170
Supporting Services	2,035,486
	<hr/>
TOTAL EXPENDITURES	4,883,656
	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	130,025
	<hr/>
OTHER FINANCING SOURCES	
Transfers In	4,126
	<hr/>
NET CHANGE IN FUND BALANCE	134,151
	<hr/>
FUND BALANCE, Beginning	981,349
	<hr/>
FUND BALANCE, Ending	\$ <u>1,115,500</u>

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

Net Change in Fund Balance of the Governmental Fund	\$ 134,151
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$7,927 exceeded depreciation expense (\$7,010) in the current year.	917
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$913,420), pension-related deferred outflows of resources \$656,491, and pension-related deferred inflows of resources (\$62,594) in the current year.	<hr/> (319,523)
Change in Net Position of Governmental Activities	\$ <u>(184,455)</u>

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2016

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 118,696
Restricted Cash and Investments	1,132,137
Accounts Receivable	3,317
Inventory	15,413
Prepaid Expenses	<u>2,009</u>
TOTAL CURRENT ASSETS	<u>1,271,572</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	508,415
Capital Assets, Net of Accumulated Depreciation	<u>6,342,616</u>
TOTAL NONCURRENT ASSETS	<u>6,851,031</u>
TOTAL ASSETS	<u>8,122,603</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>445,671</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,871
Accrued Interest Payable	173,588
Loan Payable, Current Portion	<u>265,000</u>
TOTAL CURRENT LIABILITIES	440,459
NONCURRENT LIABILITIES	
Loan Payable	<u>8,393,964</u>
TOTAL LIABILITIES	<u>8,834,423</u>
NET POSITION	
Net Investment in Capital Assets	(1,362,262)
Restricted for Debt Service	810,583
Restricted for Repair and Replacement	150,416
Unrestricted	<u>135,114</u>
TOTAL NET POSITION	<u>\$ (266,149)</u>

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND

June 30, 2016

	<u>FOUNDATION</u>
OPERATING REVENUES	
Lease Revenue	\$ 649,235
Special Events and Fundraising	<u>272,845</u>
TOTAL OPERATING REVENUES	<u>922,080</u>
OPERATING EXPENSES	
Supporting Services	219,610
Depreciation	249,154
Interest	<u>408,167</u>
TOTAL OPERATING EXPENSES	<u>876,931</u>
NET OPERATING INCOME	45,149
NONOPERATING REVENUES	
Investment Income	<u>12,250</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	57,399
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital Contributions	288,387
Transfers Out	<u>(4,126)</u>
CHANGE IN NET POSITION	341,660
NET POSITION, Beginning	<u>(607,809)</u>
NET POSITION, Ending	<u>\$ (266,149)</u>

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF CASH FLOWSPROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents

June 30, 2016

	<u>FOUNDATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 649,235
Cash Received from Special Events and Fundraising	272,120
Payments to Vendors and Recipients	(191,829)
Loan Principal Payments	(345,000)
Loan Interest Payments	<u>(383,812)</u>
Net Cash Provided by Operating Activities	<u>714</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Asset Purchases	<u>(155,739)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	9,800
Payments to Other Funds	<u>(4,126)</u>
Net Cash Provided by Investing Activities	<u>5,674</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(149,351)
CASH AND CASH EQUIVALENTS, Beginning	<u>1,400,184</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 1,250,833</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income	\$ 45,149
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	249,154
Amortization of Premium	(189)
Amortization of Loss on Refunding	27,855
Changes in Assets and Liabilities	
Accounts Receivable	(725)
Inventory	25,934
Prepaid Expenses	(24)
Accounts Payable	1,871
Accrued Interest Payable	(3,311)
Loan Payable	<u>(345,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 714</u>
NONCASH TRANSACTIONS	
Contributed Capital Assets	<u>\$ 288,387</u>

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DCS Montessori Charter School (the “School”) was organized in 1997 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”) in the State of Colorado.

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

Reporting Entity

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

The School includes the Montessori Educational Foundation of Douglas County (the “Foundation”) within its reporting entity. The Foundation is a non-profit organization established to provide educational activities that are not typically budgeted in the School’s fiscal plan. The Foundation nurtures relationships between business, educational, governmental, and charitable organizations for the purpose of enhancing education for the School. The Foundation was also formed to obtain financing for School facilities which may not be available to the School directly. The Foundation is blended into the School’s financial statements as an enterprise fund. Separate financial statements are not issued.

The School is a component unit of 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 position 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*.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

The School reports the following major governmental fund:

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

The School reports the following major proprietary fund:

Foundation - This fund is used to account for the activities of the Foundation, including fundraising and the financing of educational facilities.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - Cash equivalents include investments with an original maturity of three months or less.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balance/Net Position** (Continued)

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

Inventory - Grocery scrip inventory is stated at average cost. Inventory is recorded as an asset when individual items are purchased and as an expense when consumed.

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

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

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

Land Improvements	15 years
Buildings and Improvements	40 years
Furniture and Equipment	5 - 7 years

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

Compensated Absences - Employees are allowed to accumulate unused personal/sick time. Employees may elect to be paid for the accumulated unused personal/sick time at the conclusion of the school year at the rate of \$80 per day for salaried staff and \$40 for every four hours for classified staff. Accumulated but unpaid personal/sick time is not paid upon termination of employment. Therefore, no liability is reported in the financial statements for these compensated absences.

Unearned Revenues - Unearned revenues represent fees and tuition paid in advance.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balance/Net Position** (Continued)

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

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

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For these risks of loss, the School participates in the District's risk management program.

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

At June 30, 2016, the Foundation had a negative net position of \$266,149. Management expects this negative balance to be eliminated as the Foundation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

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

Deposits	\$ 196,418
Investments	<u>2,403,706</u>
Total	<u>\$ 2,600,124</u>

DCS MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

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

Cash and Investments	\$ 1,467,987
Restricted Cash and Investments	<u>1,132,137</u>
Total	<u>\$ 2,600,124</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.

- 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 (GICs)
- Local government investment pools

At June 30, 2016, the School and the Foundation had the following investments:

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Investment Maturities (in Years)</u>			<u>Fair Value</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>More Than 5</u>	
U.S. Agency Securities	AA+	\$ -	\$ 453,256	\$ 270,487	\$ 723,743
Local Government Investment Pool	AAAm	<u>1,679,963</u>	<u>-</u>	<u>-</u>	<u>1,679,963</u>
Total		<u>\$ 1,679,963</u>	<u>\$ 453,256</u>	<u>\$ 270,487</u>	<u>\$ 2,403,706</u>

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

Fair Value Measurements - The School reports its investments using the fair value measurements established by generally accepted accounting principles. As such, a fair value hierarchy categorizes the inputs used to measure the fair value of the investments into three levels. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs include quoted prices in active markets for similar investments, or other observable inputs; and Level 3 inputs are unobservable inputs. At June 30, 2016, the School's investments in U.S. Agency securities were measured utilizing quoted prices in active markets for similar investments (Level 2 inputs). Investments in the external investment pool are reported at the net asset value per share, which is measured using amortized cost.

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - State statutes limit most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investment.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in one issuer, except for corporate securities. At June 30, 2016, the School's and the Foundation's investments in the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Federal Farm Credit Banks Funding Corporation were 5%, 6%, 6%, and 13%, of total investments, respectively.

Local Government Investment Pool - At June 30, 2016, the School and the Foundation had invested in the Colorado Surplus Asset Fund Trust (CSAFE), 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 CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. CSAFE is rated AAAM by Standard and Poor's. Investments of CSAFE are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

Cash and investments of \$1,132,137 have been restricted by the Foundation for future debt service and facility repair and replacement.

DCS MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: CAPITAL ASSETS

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

	Balances <u>6/30/15</u>	Additions	Deletions	Balances <u>6/30/16</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 54,626	\$ 7,927	\$ -	\$ 62,553
Accumulated Depreciation	<u>(19,521)</u>	<u>(7,010)</u>	<u>-</u>	<u>(26,531)</u>
Governmental Activities Capital Assets, Net	<u>\$ 35,105</u>	<u>\$ 917</u>	<u>\$ -</u>	<u>\$ 36,022</u>

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

	Balances <u>6/30/15</u>	Additions	Deletions	Balances <u>6/30/16</u>
Business-type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 508,415	\$ -	\$ -	\$ 508,415
Construction in Progress	<u>15,588</u>	<u>-</u>	<u>(15,588)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>524,003</u>	<u>-</u>	<u>(15,588)</u>	<u>508,415</u>
Capital Assets, Being Depreciated				
Land Improvements	322,416	-	-	322,416
Buildings and Improvements	8,724,250	453,975	-	9,178,225
Furniture and Equipment	<u>241,364</u>	<u>5,739</u>	<u>-</u>	<u>247,103</u>
Total Capital Assets, Being Depreciated	<u>9,288,030</u>	<u>459,714</u>	<u>-</u>	<u>9,747,744</u>
Accumulated Depreciation				
Land Improvements	(41,873)	(21,494)	-	(63,367)
Buildings and Improvements	(2,883,202)	(227,013)	-	(3,110,215)
Furniture and Equipment	<u>(230,899)</u>	<u>(647)</u>	<u>-</u>	<u>(231,546)</u>
Total Accumulated Depreciation	<u>(3,155,974)</u>	<u>(249,154)</u>	<u>-</u>	<u>(3,405,128)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,132,056</u>	<u>210,560</u>	<u>-</u>	<u>6,342,616</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,656,059</u>	<u>\$ 210,560</u>	<u>\$ 15,588</u>	<u>\$ 6,851,031</u>

DCS MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: LONG-TERM DEBT

Following is a summary of the long-term debt transactions for the year ended June 30, 2016.

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	Balances <u>6/30/16</u>	Due Within <u>One Year</u>
Business-Type Activities					
2012 Loan	\$ 9,000,000	\$ -	\$ 345,000	\$ 8,655,000	\$ 265,000
Premium	<u>4,153</u>	<u>-</u>	<u>189</u>	<u>3,964</u>	<u>-</u>
Total	<u>\$ 9,004,153</u>	<u>\$ -</u>	<u>\$ 345,189</u>	<u>\$ 8,658,964</u>	<u>\$ 265,000</u>

In July, 2012, the Colorado Educational and Cultural Facilities Authority issued \$9,420,000 Charter School Refunding and Improvement Bonds. Proceeds were used to refund the outstanding Charter School Revenue Refunding Bonds, Series 2002, originally loaned to the Foundation to purchase and construct the School's education facilities, and to finance the construction of facilities to accommodate the middle school component of the School.

The School is obligated under a lease agreement to make monthly lease payments to the Foundation for using the facilities. The Foundation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue interest at rates ranging from 2% to 5%. Principal and interest payments are due semi-annually on January 15 and July 15, through July 15, 2037.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 265,000	\$ 377,275	\$ 642,275
2018	265,000	371,313	636,313
2019	285,000	363,187	648,187
2020	280,000	353,925	633,925
2021	300,000	344,663	644,663
2022 - 2026	1,655,000	1,557,332	3,212,332
2027 - 2031	2,050,000	1,175,800	3,225,800
2032 - 2036	2,630,000	607,125	3,237,125
2037 - 2038	<u>925,000</u>	<u>46,750</u>	<u>971,750</u>
Total	<u>\$ 8,655,000</u>	<u>\$ 5,197,370</u>	<u>\$ 13,852,370</u>

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2016, the Foundation transferred excess interest earnings of \$4,126 to the School.

NOTE 7: DEFINED BENEFIT PENSION PLAN**General Information**

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The School's contributions to the SDTF for the year ended June 30, 2016, were \$413,827, equal to the required contributions.

DCS MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the School reported a net pension liability of \$7,409,088, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0484434783%, which was an increase of 0.0005168496% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$713,843. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 97,838	\$ 305
Changes of assumptions and other inputs	-	104,704
Net difference between projected and actual earnings on plan investments	628,771	-
Changes in proportion	50,805	71,282
Contributions subsequent to the measurement date	<u>224,121</u>	<u>-</u>
Total	<u>\$ 1,001,535</u>	<u>\$ 176,291</u>

School contributions subsequent to the measurement date of \$224,121 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 141,064
2018	153,697
2019	177,178
2020	<u>129,184</u>
Total	<u>\$ 601,123</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

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

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

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

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Proportionate share of the net pension liability	<u>\$ 9,604,343</u>	<u>\$ 7,409,088</u>	<u>\$ 5,583,045</u>

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

NOTE 8: 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 benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$22,496, \$20,878 and \$20,062, respectively, equal to the required amounts for each year.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2016, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

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 Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$152,000.

REQUIRED SUPPLEMENTARY INFORMATION

DCS MONTESSORI CHARTER SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0484434783%	0.0479266287%	0.0491429554%
School's Proportionate Share of the Net Pension Liability	\$ 7,409,088	\$ 6,495,668	\$ 6,268,171
School's Covered-Employee Payroll	\$ 2,111,440	\$ 2,007,780	\$ 1,981,110
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 391,331	\$ 342,389	\$ 314,517
Contributions in Relation to the Statutorily Required Contribution	<u>(391,331)</u>	<u>(342,389)</u>	<u>(314,517)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 2,205,458	\$ 2,027,653	\$ 1,966,852
Contributions as a Percentage of Covered-Employee Payroll	17.74%	16.89%	15.99%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

DCS MONTESSORI CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULEGENERAL FUND

June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,806,360	\$ 2,894,728	\$ 2,929,021	\$ 34,293
District Mill Levy	222,992	230,761	229,423	(1,338)
Student Fees and Activities	1,388,000	1,486,000	1,667,248	181,248
Contributions and Fundraising	-	-	21,072	21,072
Rental Income	21,000	21,500	21,985	485
Investment Income	10,500	3,500	6,071	2,571
Miscellaneous	7,500	9,800	12,483	2,683
State Sources				
Capital Construction	100,000	102,000	108,205	6,205
Grants	-	15,400	16,693	1,293
Federal Sources				
Grants	-	-	1,480	1,480
TOTAL REVENUES	<u>4,556,352</u>	<u>4,763,689</u>	<u>5,013,681</u>	<u>249,992</u>
EXPENDITURES				
Salaries	2,325,250	2,325,250	2,266,515	58,735
Employee Benefits	688,600	703,600	670,106	33,494
Purchased Services	467,566	473,223	489,876	(16,653)
Supplies	239,500	256,000	235,263	20,737
Property	162,600	429,600	378,420	51,180
Building Lease	641,000	641,000	649,235	(8,235)
Miscellaneous	-	124,000	194,241	(70,241)
Reserves	-	50,000	-	50,000
TOTAL EXPENDITURES	<u>4,524,516</u>	<u>5,002,673</u>	<u>4,883,656</u>	<u>119,017</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	31,836	(238,984)	130,025	369,009
OTHER FINANCING SOURCES				
Transfers In	-	-	4,126	4,126
NET CHANGE IN FUND BALANCE	31,836	(238,984)	134,151	373,135
FUND BALANCE, Beginning	<u>702,836</u>	<u>981,349</u>	<u>981,349</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 734,672</u>	<u>\$ 742,365</u>	<u>\$ 1,115,500</u>	<u>\$ 373,135</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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