

**ROSS MONTESSORI CHARTER SCHOOL**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 8:57 am, Jan 04, 2017*

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## JOHN CUTLER & ASSOCIATES

Board of Directors  
Ross Montessori Charter School  
Carbondale, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Ross Montessori Charter School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Ross Montessori Charter School, as of and for the year ended June 30, 2016, and the respective changes in financial position, thereof 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, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 26-28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016 on our consideration of Ross Montessori Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ross Montessori Charter School's internal control over financial reporting and compliance.

*John Luttler & Associates, LLC*

October 13, 2016

**Ross Montessori School**  
**Mark Ross Montessori Foundation**  
Management's Discussion and Analysis  
**Fiscal Year Ended June 30, 2016**

As Management of Ross Montessori School (the School) and the Mark Ross Montessori Foundation (the Foundation), we offer readers of these financial statements this narrative and analysis of the financial activities of the School and Foundation for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

**Financial Highlights**

The year ended June 30, 2016, was the eleventh year of operations for the School. The School Operating Fund had Net Positive Change in Fund Balance of \$ 105,743 versus budget estimate of \$ 106,755. Leaving the School Operating Fund with a positive Fund Balance of \$461,040 as of June 30, 2016.

The Mark Ross Montessori Foundation Fund showed fundraising revenues of \$640,234 for the year and incurred operating expenses of \$54,803, and made a donation to the School Operating Fund of \$30,000 representing the Annual Fund proceeds for the year.

During the fiscal year ended June 30, 2015, The Mark Ross Montessori Foundation purchased land in the Town of Carbondale for the new school facility. The cost of the land was \$1,258,111. The school then received approval for a USDA Loan in the amount of \$6,400,000 to construct the new school building on the land that was purchased. Construction on the new school began in May of 2015. Substantial completion of the school was in December of 2015. In April of 2016 the Foundation entered into a loan agreement with the USDA in the amount of \$6,400,000, to fund the permanent financing of the school. In addition, in April of 2016, the foundation entered into an additional loan agreement with the USDA for \$700,000 to construct an additional two classrooms. These additional funds are expected to be spent within the 2016-2017 fiscal year. The school moved into the new facility to begin the 2<sup>nd</sup> semester classes during the 2015-2016 school year.

The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue (PPR) was \$1,790,946. This was an increase from the \$1,537,778 received in fiscal year 2014-2015.

**Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the School'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 the Schools finances in a manner similar to a private sector business.

The statement of net position presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows in future periods.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like governmental entities, uses fund accounting 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. The fund tracking is reported in the auditor's report.

The School adopts an annual budget for its general fund.

***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**

Net position may be used as an indicator of the Schools financial position, over time. For the year ended June 30, 2016, the School's net position was \$(926,990) This is an increase of \$176,080 from the June 30, 2015 balance of \$(1,103,070). School Operations contributed net positive change to fund balance of \$732,916, and the remaining increase can be attributed to the Fundraising efforts by the schools Foundation Fund. The School's Operating Fund has contributed positively to the Fund Balance for Five consecutive years.

**Net Assets**

<b>Assets</b>	
Cash and Equivalents	951,366
Restricted Cash and Cash Equivalents	371,406
Accounts Receivable	23,003
Prepaid Expenses	22,036
Capital Assets, Net	1,258,111
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>6,955,246</u>
<b>Total Assets</b>	<b><u>9,581,168</u></b>
<b>Liabilities</b>	
Accounts Payable	202,249
Unearned Revenue	22,110
Accrued Salaries and Benefits	203,302
Noncurrent Liabilities	
Due in One Year	104,155

Due, Over One Year	6,978,291
Pension Liability, Net	<u>2,998,051</u>
Total Liabilities	<u>10,508,158</u>
Net Assets	
Invested in Capital Assets	1,130,911
Restricted for TABOR	63,000
Restricted for Capital Campaign	479,110
Unrestricted	(2,600,011)
Net Assets	<u><u>(926,900)</u></u>
<b>Change in Net Position</b>	
Revenues	
Per Pupil Revenue	1,790,946
Tuition and Fees	478,712
Grants and Donations	592,603
Other Revenues	<u>50,401</u>
Total Revenues	2,912,662
Expenses	
Instruction	1,433,767
Support Services	<u>1,271,634</u>
Total Expenses	<u>2,736,582</u>
Change in Net Position	176,080
Net Position, June 30, 2015	<u>(1,103,070)</u>
Net Position, June 30, 2016	<u>(926,990)</u>

### Financial Analysis of Ross Montessori School's Funds

The School uses three funds to account for its financial activities: the General Fund, Foundation Fund, and Non-Major Capital Reserve Fund. The General Fund shows the primary operations of the School. The General Fund ended the year with a positive fund balance of \$ 461,040 at June 30, 2016. The Foundation Fund reflects the activities of the Mark Ross Montessori Foundation, which receives, maintains, and administers, funds received as gifts for the benefit of the School. The Foundation also owns the land and the building project currently underway, as well as incurs the debt for the building. The Foundation Fund has a positive fund balance of \$ 476,110 at year end. The Capital Fund was not used this year.

## **Capital Assets and Debt Administration**

The School has Land asset in the amount of \$1,258,111, a building asset in the amount of \$5,880,290, as well as Depreciable Capital Assets consisting of Equipment and Leasehold Improvements. Total Capital Assets balance as of June 30, 2016 was \$8,213,357. Long Term Debt consists of the USDA Loans for Construction of the new School Building, Balances funded on the Loans as of June 30, 2016 was \$7,082,446. See Notes 4 and 6 for more information.

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

The primary factor driving the budget for the School continues to be student enrollment. Enrollment for 2015-16 was 260. 2016-17, enrollment is expected to increase to 279. Per pupil funding levels drive the revenues for the School. With increases in the PPR revenue, the school should benefit from increased funding. This bodes well for the school's operations as more and consistent funding provides a stable base of operations for the school. The school continues to reach out to potential students in neighboring communities and hopes to maintain steady to increasing enrollment levels. Based on the budget approved by the Board in June 2016, it is expected that revenues for 2015-16 will be sufficient to meet all operating expenditures, and the School's Operating Fund is expected to show Positive Net Income for a seventh consecutive year.

## **Requests for Information**

The financial report is designed to provide a general overview of Ross Montessori School's finances for all those with an interest in the school. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Ross Montessori School  
Attention: Treasurer  
109, Lewies Lane  
Carbondale, Colorado 81623

## **BASIC FINANCIAL STATEMENTS**

ROSS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	2016	2015
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 951,366	\$ 317,690
Restricted Cash and Cash Equivalents	371,406	-
Accounts Receivable, net	23,003	109,597
Prepaid Expenses	22,036	22,505
Capital Assets, Not Being Depreciated	1,258,111	2,495,556
Capital Assets, Depreciated, Net of Accumulated Depreciation	6,955,246	39,594
	<u>9,581,168</u>	<u>2,984,942</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Related to Pensions	687,965	426,736
	<u>687,965</u>	<u>426,736</u>
<b>LIABILITIES</b>		
Accounts Payable	202,249	3,720
Accrued Salaries and Benefits	203,302	212,838
Unearned Revenue	22,110	26,000
Noncurrent Liabilities		
Due in One Year	104,155	-
Due in More than One Year	6,978,291	1,129,233
Net Pension Liability	3,634,503	3,142,781
	<u>11,144,610</u>	<u>4,514,572</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Related to Pensions	51,513	176
	<u>51,513</u>	<u>176</u>
<b>NET POSITION</b>		
Investment in Capital Assets	1,130,911	1,405,917
Restricted for Emergencies	63,000	54,000
Restricted for Capital Campaign	479,110	-
Unrestricted	(2,600,011)	(2,562,987)
	<u>(2,600,011)</u>	<u>(2,562,987)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (926,990)</u>	<u>\$ (1,103,070)</u>

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

ROSS MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
PRIMARY GOVERNMENT					2016	2015
<b>Governmental Activities</b>						
Instructional	\$ 1,433,767	\$ 206,865	\$ 80,886	\$ -	\$ (1,146,016)	\$ (826,828)
Supporting Services	1,271,634	271,847	449,421	62,296	(488,070)	(284,145)
Total Governmental Activities	<u>\$ 2,736,582</u>	<u>\$ 478,712</u>	<u>\$ 530,307</u>	<u>\$ 62,296</u>	<u>(1,665,267)</u>	<u>(1,110,973)</u>
		GENERAL REVENUES				
					1,790,946	1,537,778
					118	99
					50,283	-
					<u>1,841,347</u>	<u>1,537,877</u>
					176,080	426,904
					<u>(1,103,070)</u>	<u>(1,529,974)</u>
					<u>\$ (926,990)</u>	<u>\$ (1,103,070)</u>

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

ROSS MONTESSORI CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	GENERAL FUND	FOUNDATION FUND	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 308,652	\$ 642,714	\$ 951,366	\$ 317,690
Restricted Cash and Cash Equivalents	-	371,406	371,406	-
Accounts Receivable	23,003	-	23,003	109,597
Due from Foundation Fund	350,500	-	350,500	320,000
Prepays	22,036	-	22,036	22,505
<b>TOTAL ASSETS</b>	<b>\$ 704,191</b>	<b>\$ 1,014,120</b>	<b>\$ 1,718,311</b>	<b>\$ 769,792</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 17,739	\$ 184,510	\$ 202,249	\$ 3,720
Accrued Salaries and Benefits	203,302	-	203,302	212,838
Unearned Revenue	22,110	-	22,110	26,000
Due to General Fund	-	350,500	350,500	320,000
<b>TOTAL LIABILITIES</b>	<b>243,151</b>	<b>535,010</b>	<b>778,161</b>	<b>562,558</b>
<b>FUND BALANCES</b>				
Nonspendable for Prepays	22,036	-	22,036	22,505
Restricted for Emergencies	63,000	-	63,000	54,000
Restricted for Capital Campaign	-	479,110	479,110	-
Unassigned	376,004	-	376,004	130,729
<b>TOTAL FUND BALANCES</b>	<b>461,040</b>	<b>479,110</b>	<b>940,150</b>	<b>207,234</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 704,191</b>	<b>\$ 1,014,120</b>		

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

8,213,357      2,535,150

Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. These liabilities include loan payable (\$7,082,446) net pension liability (\$3,634,503), deferred outflows related to pensions \$687,965, and deferred inflows related to pensions (\$51,513).

(10,080,497)      (3,845,454)

Net position of governmental activities

\$ (926,990)      \$ (1,103,070)

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

ROSS MONTESSORI CHARTER SCHOOL

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

	GENERAL FUND	FOUNDATION FUND	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
REVENUES				
Local Sources	\$ 2,129,246	\$ 640,234	\$ 2,769,480	\$ 2,311,484
State Sources	124,743	-	124,743	120,508
Federal Sources	18,439	-	18,439	15,329
<b>TOTAL REVENUES</b>	<b>2,272,428</b>	<b>640,234</b>	<b>2,912,662</b>	<b>2,447,321</b>
EXPENDITURES				
Current				
Instruction	1,210,907	-	1,210,907	1,102,623
Supporting Services	953,971	54,803	1,008,774	819,048
Capital Outlay	1,807	5,880,290	5,882,097	2,396,762
Debt Service				
Principal	-	17,554	17,554	-
Interest	-	31,181	31,181	-
<b>TOTAL EXPENDITURES</b>	<b>2,166,685</b>	<b>5,983,828</b>	<b>8,150,513</b>	<b>4,318,433</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	105,743	(5,343,594)	(5,237,851)	(1,871,112)
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	5,970,767	5,970,767	1,129,233
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>5,970,767</b>	<b>5,970,767</b>	<b>1,129,233</b>
NET CHANGE IN FUND BALANCES	105,743	627,173	732,916	(741,879)
FUND BALANCES, Beginning	355,297	(148,063)	207,234	949,113
FUND BALANCES, Ending	\$ 461,040	\$ 479,110	\$ 940,150	\$ 207,234

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

ROSS MONTESSORI CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 732,916
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense. This is the amount that capital outlay \$5,880,290, exceeded depreciation expense (\$187,877) and loss on disposal (\$14,206) for the year.	5,678,207
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	(281,830)
Loan proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(7,100,000)
Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the School as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net position and do not result in an expense in the statement of activities.	<u>1,146,787</u>
Change in net position of governmental activities	<u>\$ 176,080</u>

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

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

The Ross Montessori Charter School (the “School”) was formed in 2005 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School receives its State funding from the Charter School Institute (the “Institute”).

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. 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 Mark Ross Montessori Foundation (the “Foundation”) within its reporting entity. The Foundation was formed for the purpose of receiving, maintaining, and administering, funds received as gifts for the benefit of the School. The Foundation is blended into the School’s financial statements as a special revenue fund. Separate financial statements are not available for the Foundation.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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 intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported in separate columns in the fund financial statements.

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**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. 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 period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

Internally dedicated resources are reported as general revenues rather than as program revenues.

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 governmental funds:

*General Fund* – This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

*Foundation Fund* – This fund accounts for the activities of the Mark Ross Montessori Foundation.

**Deferred Outflows/Inflows of Resources**

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

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

**Deferred Outflows/Inflows of Resources** (Continued)

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

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

*Receivables* – 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* – Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses. An expenditure is reported in the year in which the services are consumed.

*Capital Assets* – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: Leasehold Improvements, 15 years; Equipment, 5 years.

*Unearned Revenue* – Unearned revenues include student registration fee revenues that have been received for the subsequent fiscal year.

*Long Term Obligations* - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Net Position*— The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- Restricted Net Position are liquid assets, which have third party limitations on their use.
- Unrestricted Net Position represents assets that do not have any third party limitation on their use. While School management may have categorized and segmented portion for various purposes, the School Board has the unrestricted right to revisit or alter these managerial decisions.

*Fund Balance Classification* – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The School’s nonspendable amounts as of June 30, 2016 were nonspendable in form as prepaid expenses.

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. As of June 30, 2016, the School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The school as also classified funds for the Capital Campaign as being restricted because their use is restricted by the contributors.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balance.

**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 purchases commercial insurance for these risks of loss. Settled claims have not exceeded this coverage in the last three years.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

**Budgets and Budgetary Accounting**

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

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

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

**Deposits** (Continued)

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$1,322,772. The bank balances with the financial institutions were \$1,342,702. Of these balances, \$250,000 was covered by federal depository insurance and \$1,092,702 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Restricted Cash**

At June 30, 2016, cash in the amount of \$371,406 is held at the U.S. Department of Agriculture ("USDA") representing the amount of unspent loan proceeds restricted for capital expenditures.

**NOTE 4: CAPITAL ASSETS**

Capital Assets activity for the year ended June 30, 2016 is summarized below.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Land	\$ 1,258,111	\$ -	\$ -	\$ 1,258,111
Construction in Progress	<u>1,237,445</u>	<u>-</u>	<u>1,237,445</u>	<u>-</u>
Total Capital Assets, Not Depreciated	<u>2,495,556</u>	<u>-</u>	<u>1,237,445</u>	<u>1,258,111</u>
Capital Assets, Being Depreciated				
Leasehold Improvements	38,753	-	38,753	-
Building	-	7,020,914	-	7,020,914
Equipment	<u>113,219</u>	<u>96,821</u>	<u>-</u>	<u>210,040</u>
Total Capital Assets, Being Depreciated	<u>151,972</u>	<u>7,117,735</u>	<u>38,753</u>	<u>7,230,954</u>

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Accumulated Depreciation				
Leasehold Improvements	24,547	-	24,547	-
Building	-	175,523	-	175,523
Equipment	<u>87,831</u>	<u>12,354</u>	-	<u>100,185</u>
Depreciation	<u>112,378</u>	<u>187,877</u>	<u>24,547</u>	<u>275,708</u>
Total Capital Assets, Being Depreciated	<u>39,594</u>	<u>6,929,858</u>	<u>14,206</u>	<u>6,955,246</u>
Net Capital Assets	<u>\$ 2,535,150</u>	<u>\$ 6,929,858</u>	<u>\$ 1,251,351</u>	<u>\$ 8,213,357</u>

Depreciation has been charged to the Supporting Services program of the School.

**NOTE 5: 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, as of June 30, 2016, were \$203,302. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

**NOTE 6: LONG TERM DEBT**

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2016:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
Construction Loan Payable	\$ 1,129,233	-	\$ 1,129,233	\$ -	-
USDA Loan Payable	-	6,400,000	16,704	6,383,296	93,796
USDA Loan Payable	<u>-</u>	<u>700,000</u>	<u>850</u>	<u>699,150</u>	<u>10,359</u>
<b>Total</b>	<u>\$ 1,129,233</u>	<u>\$ 7,100,000</u>	<u>\$ 1,146,787</u>	<u>\$ 7,082,446</u>	<u>\$ 104,155</u>

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 6: LONG TERM DEBT** (Continued)

**Construction Loan Payable**

In August 2014, the School's Foundation received approval for a USDA loan in the amount of \$6,400,000. The proceeds of the loan are used to construct the School's new educational facility in Carbondale, Colorado. During the construction phase of the project, the Foundation has received short term interim financing by AgStar, a third party servicer. Upon prior approval by USDA, funds are drawn from the construction loan to pay for construction costs. The interim financing has a 24 month term and carries an interest rate of 2.7875%. In addition to the interest payments, the Foundation is also required to the third party servicer a fee of .50% of the unused construction loan balance on a monthly basis.

In April of 2016 the balance on the construction loan was moved to the permanent loan with USDA.

**USDA Loan Payable**

In April 2016 the Foundation entered into a loan agreement with USDA in the amount of \$6,400,000. Proceeds of the loan were used to construct the School's new educational facility. The loan carries an interest rate of 2.875%. Monthly principal and interest payments in the amount of \$23,104 are due through May 2054.

In April 2016 the Foundation entered into an additional loan agreement with USDA in the amount of \$700,000 to construct two additional classrooms. The loan carries an interest rate of 2.875%. Monthly principal and interest payments in the amount of \$2,527 are due through June 2054. At June 30, 2016 there are \$371,406 in unspent loan proceeds still held at USDA. The Foundation expects to draw the remaining loan funds during the 2016-2017 fiscal year. The unspent loan proceeds are reported as restricted cash on the Foundation's balance sheet.

**Lease Agreement**

During the year ended June 30, 2015 the Foundation and the School entered into a lease agreement for the newly constructed educational facility. Upon the completion of the facility in January 2016, the School started making monthly lease payments to the Foundation of \$28,194. The Foundation will make payments to service the Foundation's USDA debt service commitment.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 6: 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>
2017	\$ 104,155	\$ 203,417	\$ 307,572
2018	108,367	199,205	307,572
2019	111,524	196,048	307,572
2020	114,772	192,800	307,572
2021	118,116	189,456	307,572
2022-2026	644,244	893,616	1,537,860
2027-2031	743,712	794,148	1,537,860
2032-2036	858,540	679,320	1,537,860
2037-2041	991,096	546,764	1,537,860
2042-2046	1,144,118	393,742	1,537,860
2047-2051	1,320,766	217,094	1,537,860
2052-2054	<u>823,036</u>	<u>34,397</u>	<u>857,433</u>
<b>Total</b>	<b><u>\$ 7,082,446</u></b>	<b><u>\$ 4,540,007</u></b>	<b><u>\$ 11,622,453</u></b>

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

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

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year.

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve for the SCHDTF.

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

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

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

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate <sup>1</sup>	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) <sup>1</sup>	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF <sup>1</sup>	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF <sup>1</sup>	17.33%	18.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$182,315 for the year ended June 30, 2016.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE 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 liability of \$3,634,503 for its proportionate share of the net pension liability. The net pension liability was measured as of 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. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School proportion was 0.02376%, which was an increase of 0.00058% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2015 the School recognized pension expense of \$464,145. 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>
Difference between expected and actual experience	\$47,994	\$151
Net difference between projected and actual earnings on pension plan investments	\$309,035	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$236,286	N/A
Changes in assumptions and other inputs	N/A	\$51,362
Contributions subsequent to the measurement date	\$94,650	N/A
Total	\$687,965	\$51,513

ROSS MONTESSORI CHARTER SCHOOL  
NOTES TO THE 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)

\$94,650 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$191,807
2018	\$191,835
2019	\$ 94,789
2020	\$ 63,371

*Actuarial assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80%	
Real wage growth	1.10%	
Wage inflation	3.90%	
Salary increases, including wage inflation	3.90%-10.10%	
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%	
Future post-retirement benefit increases:		
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%	
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)		Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE 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)

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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- 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.

The following methodology changes were made:

- 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.

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

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE 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)

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

\* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE 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)

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE 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)

*Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$4,711,378	\$3,634,503	\$2,738,744

*Pension plan fiduciary net position.* Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Other Post-Employment Benefits**

Health Care Trust Fund

*Plan Description* – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Funding Policy* – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014, the School contributions to the HCTF were \$9,914 \$7,641 and \$6,312, respectively, equal to their required contributions for each year.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Operating Lease**

In prior years, the School has entered into non-cancellable operating leases for modular buildings and land. The leases required monthly payments ranging from \$2,125 to \$10,880. The final payments were due June 2015. The School has agreed to continue leasing its modular buildings until January 2016, when School moved into its newly constructed facility. For the year ended June 30, 2016, the School paid \$129,447 under the terms on the lease agreement.

**Real Estate Agreement**

During the year ended June 30, 2015, the School's Foundation entered into a contract to purchase land from Cerise Park LLC (the "Developer"). Under the terms of the agreement, the Developer agreed to install various infrastructure assets such as water and sewer lines, electric and gas lines, as well as a bike path and improvements to Colorado Highway 133 to improve access and traffic flow to and from the property.

The Foundation has agreed to reimburse the Developer \$500,000 for the installation and completion of the infrastructure and \$230,000 for the improvements to Colorado Highway 133. The agreed upon improvements were substantially completed by June 30, 2016 and the Foundation made all the applicable payments to the developer under the terms of the agreement.

**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 units. 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. As of June 30, 2016, 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 tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2016, the reserve of \$63,000 was recorded as a restriction of fund balance in the General Fund.

ROSS MONTESSORI CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 9: INTERFUND AMOUNTS**

As of June 30, 2016, the Foundation Fund owed the General Fund \$350,500 for an advance to purchase the land for the building. This advance is expected to be repaid once all of the proceeds from the debt issuance had been drawn.

**NOTE 10: DEFICIT NET POSITION**

The net position of the governmental activities is in a deficit position of \$926,990 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

**REQUIRED SUPPLEMENTARY INFORMATION**

ROSS MONTESSORI CHARTER SCHOOL

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 1,744,248	\$ 1,766,831	\$ 1,790,946	\$ 24,115	\$ 1,537,778
Tuition and Fees	279,500	245,000	266,848	21,848	231,158
Grants and Contributions	115,705	82,500	32,968	(49,532)	85,983
Other	-	35,000	38,484	3,484	99
State Sources					
Grants and Donations	-	108,660	124,743	16,083	120,508
Federal Sources					
Grants and Donations	-	17,518	18,439	921	15,329
<b>TOTAL REVENUES</b>	<u>2,139,453</u>	<u>2,255,509</u>	<u>2,272,428</u>	<u>16,919</u>	<u>1,990,855</u>
<b>EXPENDITURES</b>					
Salaries	1,014,396	1,084,410	1,100,580	(16,170)	989,930
Employee Benefits	325,796	335,863	354,318	(18,455)	329,109
Purchased Services	596,626	643,942	555,654	88,288	371,523
Supplies and Materials	130,880	123,380	147,790	(24,410)	161,471
Property	-	-	1,807	(1,807)	29,815
Other	62,031	32,500	6,536	25,964	6,766
<b>TOTAL EXPENDITURES</b>	<u>2,129,729</u>	<u>2,220,095</u>	<u>2,166,685</u>	<u>53,410</u>	<u>1,888,614</u>
<b>NET CHANGE IN FUND BALANCE</b>	9,724	35,414	105,743	70,329	102,241
<b>FUND BALANCE, Beginning</b>	<u>389,199</u>	<u>355,297</u>	<u>355,297</u>	-	<u>253,056</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 398,923</u>	<u>\$ 390,711</u>	<u>\$ 461,040</u>	<u>\$ 70,329</u>	<u>\$ 355,297</u>

See the accompanying independent auditors' report.

ROSS MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
SCHOOL DIVISION TRUST FUND

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.022%	0.023%	0.024%
School's proportionate share of the Net Pension Liability	\$ 2,783,368	\$ 3,142,781	\$ 3,634,503
School's covered-employee payroll	\$ 970,919	\$ 879,705	\$ 1,035,619
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	286.7%	357.3%	350.9%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

See the accompanying independent auditors' report.

ROSS MONTESSORI CHARTER SCHOOL  
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
 SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016
Statutorily required contributions	\$ 152,972	\$ 190,626	\$ 182,315
Contributions in relation to the Statutorily required contributions	152,972	190,626	182,315
Contribution deficiency (excess)	\$ -	\$ -	\$ -
School's covered-employee payroll	\$ 898,979	\$ 1,063,084	\$ 971,997
Contributions as a percentage of covered-employee payroll	17.02%	17.93%	18.76%

See the accompanying independent auditors' report.

## **COMPLIANCE**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Ross Montessori Charter School  
Carbondale, Colorado

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Ross Montessori Charter School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Ross Montessori Charter School's basic financial statements, and have issued our report thereon dated October 13, 2016.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Ross Montessori Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ross Montessori Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Ross Montessori Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ross Montessori Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of a3n audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

*John Luthr & Associates, LLC*

October 13, 2016



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Ross Montessori Charter School  
Carbondale, Colorado

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY UNIFORM GUIDANCE**

#### **Report on Compliance for Each Major Federal Program**

We have audited Ross Montessori Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ross Montessori Charter School's major federal programs for the year ended June 30, 2016. Ross Montessori Charter School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Ross Montessori Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ross Montessori Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ross Montessori Charter School's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, Ross Montessori Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of Ross Montessori Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ross Montessori's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ross Montessori Charter School's internal control over compliance.

*A deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose

*John Luttrell & Associates, LLC*

October 13, 2016

ROSS MONTESSORI CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

**Summary of Auditors- Results**

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ yes     no
- Significant deficiencies noted? \_\_\_\_\_ yes     none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes     no

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified? \_\_\_\_\_ yes     no
- Significant deficiencies identified? \_\_\_\_\_ yes     none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

\_\_\_\_\_ yes     no

Identification of major program:

10.766 Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes     no

**Findings Related to Financial Statements**

The audit of the financial statements did not disclose any significant deficiencies in internal control that would be considered a material weakness, and did not disclose any instances of noncompliance with requirements of certain provisions of laws, regulations, and grants that were material to those financial statements.

**Findings and Questioned Costs for Federal Awards**

The audit of federal awards did not disclose any significant deficiencies in internal control that would be considered a material weakness, and did not disclose any instances of noncompliance with requirements of certain provisions of laws, regulations, and grants that were material to those federal awards.

ROSS MONTESSORI CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2016

	<u>Major Program ?</u>	<u>CDFA #</u>	<u>Total Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Community Facilities Loans and Grants	yes	10.766	<u>\$ 5,599,361</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 5,599,361</u></u>

**NOTES**

**1. Basis of Presentation**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the purpose financial statements.

See the accompanying independent auditors' report.