

SALIDA MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2016



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SALIDA MONTESSORI CHARTER SCHOOL

June 30, 2016

Board of Directors

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Bill Smith, Vice-Chair

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Chuck Tomkiewicz, Secretary

Courtney Landry, Director

Erin Oliver, Director

Margaret Rush, Director

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Board of Directors
Salida Montessori Charter School
Salida, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Salida 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 basic financial statements of the Salida 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 and the major fund of the Salida Montessori Charter School as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 21, 2016

Salida Montessori Charter School

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2016

As management of Salida Montessori Charter School (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The year ending June 30, 2016, was the first year of operations for the School. As of June 30, 2016, the net position was (\$137,282). The negative net position is due to the reporting of the School's proportionate share of the Public Employees Retirement Association (PERA) unfunded pension liability. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Per Pupil Revenue (PPR) for the year was \$492,424. The General Fund ending fund balance increased \$158,400 to \$158,525.

Overview of Basic Financial Statements

This discussion and analysis is 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 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, liabilities, and deferred inflows, with the difference between the assets/deferred outflows and liabilities/deferred inflows 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 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 the related cash flows. Thus, revenue and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

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 other local governments, 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 in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term financing requirements. The School maintains one governmental fund, its General Fund.

Salida Montessori Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The School adopt an annual budget. Budgetary comparisons have been provided for the General Fund in the required supplementary information to demonstrate compliance with the budget.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are disclosed on pages 5 through 14.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial condition. As of June 30, 2016, the School's liabilities and deferred inflows exceeded assets and deferred outflows by \$137,282. \$28,500 of this total is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy general operating expenses of the School. The unrestricted net position balance was (\$174,380) and the net investment in capital assets was \$8,598. Net position as of June 30, 2016 is as follows:

	June 30, 2016
Assets	
Cash and Investments	\$ 131,068
Accounts Receivable	7,401
Grants Receivable	96,250
Prepaid Expenses	17,142
Capital Assets (Net)	8,598
Total Assets	260,459
Deferred Outflows – Pensions	927,111
Liabilities	
Accounts Payable and Accrued Liabilities	21,649
Accrued Salaries and Benefits	32,587
Unearned Revenue	39,100
Noncurrent Liability – Net Pension Liability	1,214,355
Total Liabilities	1,307,691
Deferred Inflows – Pensions	17,161
Net Position	
Net Investment in Capital Assets	8,598
Restricted for Emergencies	28,500
Unrestricted	(174,380)
Total Net Position	\$ (137,282)

Salida Montessori Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

Change in net position for the year ended June 30, 2016 is as follows:

	June 30, 2016
Revenues	
Program Revenues	
Operating Grants and Contributions	\$ 142,962
Charges for Services	224,048
Total Program Revenues	367,010
General Revenues	
Per Pupil Revenue	492,424
Mill Levy Override	3,106
Additional At Risk Funding	211
Capital Construction	17,888
Unrestricted Grants and Contributions	199,046
Other	457
Total General Revenues	713,132
Total Revenues	1,080,142
Expenses	
Instruction	924,486
Supporting Services	293,063
Total Expenses	1,217,549
Decrease in Net Position	(137,407)
Net Position, Beginning of Year	125
Net Position, End of Year	\$ (137,282)

Financial Analysis of the School's Fund

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. The General Fund began the year with a positive fund balance of \$125. As a result of operating within its budget, the General Fund ending fund balance increased to \$158,525 at year-end. Seventy one percent of the General Fund ending fund balance is unassigned.

Salida Montessori Charter School

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2016

General Fund Budgetary Highlights

The School budgeted General Fund expenditures of \$1,133,502 for the year ended June 30, 2016. Actual expenditures were \$921,742. The positive variance of \$211,760 was planned and partly due to the lower than projected salary and benefit expense. The support property budget was not utilized because the majority of property expenses related to instruction.

A budget amendment was needed for the year as the School received substantial unanticipated grants and private contributions during the year.

Capital Assets and Debt Administration

The School leases its school facilities under two operating lease agreements that were signed in April 2015. The leases were extended one year in July of 2016. The School had capital assets of \$8,895 (copier purchase) and accumulated depreciation of \$297 at June 30, 2016.

The School had no outstanding debt at June 30, 2016.

Economic Factors, Next Year's Budget, Student Counts

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) was 69.2 for FY16. The FPC used to create the FY17 budget was 75.8. Currently the School is projecting 75.8 FPC or 80 enrolled students.

The State of Colorado continues to chip away at the large negative factor (shortfall in the School Finance Act). The Per Pupil Revenue (PPR) for FY17 will grow approximately 1.7%. Additional support in the form of capital construction funding, grants and private contributions will continue and allow the School to drive more resources into the classroom.

Requests for Information

This financial report is designed to provide a general overview of the School's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Salida Montessori Charter School, 1040 I Street, Salida, Colorado 81201.

BASIC FINANCIAL STATEMENTS

SALIDA MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 131,068
Accounts Receivable	7,401
Grants Receivable	96,250
Prepaid Expenses	17,142
Capital Assets, Net of Accumulated Depreciation	<u>8,598</u>
TOTAL ASSETS	<u>260,459</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>927,111</u>
LIABILITIES	
Accounts Payable	18,650
Accrued Liabilities	2,999
Accrued Salaries and Benefits	32,587
Unearned Revenues	39,100
Noncurrent Liabilities	
Net Pension Liability	<u>1,214,355</u>
TOTAL LIABILITIES	<u>1,307,691</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>17,161</u>
NET POSITION	
Net Investment in Capital Assets	8,598
Restricted for Emergencies	28,500
Unrestricted	<u>(174,380)</u>
TOTAL NET POSITION	<u>\$ (137,282)</u>

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

SALIDA 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	GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 924,486	\$ 224,048	\$ 142,962	\$ (557,476)
Supporting Services	293,063	-	-	(293,063)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 1,217,549	\$ 224,048	\$ 142,962	(850,539)
GENERAL REVENUES				
Per Pupil Revenue				492,424
At-Risk Supplemental Aid				3,106
Additional At-Risk Funding				211
Capital Construction				17,888
Grants and Contributions not Restricted to Specific Programs				199,046
Investment Income				27
Miscellaneous				430
TOTAL GENERAL REVENUES				713,132
CHANGE IN NET POSITION				(137,407)
NET POSITION, Beginning				125
NET POSITION, Ending				\$ (137,282)

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

SALIDA MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash	\$ 131,068
Accounts Receivable	7,401
Grants Receivable	96,250
Prepaid Expenditures	17,142
TOTAL ASSETS	\$ 251,861
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 18,650
Accrued Liabilities	2,999
Accrued Salaries and Benefits	32,587
Unearned Revenues	39,100
TOTAL LIABILITIES	93,336
FUND BALANCE	
Nonspendable Prepaid Expenditures	17,142
Restricted for Emergencies	28,500
Unrestricted, Unassigned	112,883
TOTAL FUND BALANCE	158,525
TOTAL LIABILITIES AND FUND BALANCE	\$ 251,861
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 158,525
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	8,598
Long-term liabilities and related items, including net pension liability (\$1,214,355), pension-related deferred outflows of resources \$927,111, and pension-related deferred inflows of resources (\$17,161), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(304,405)
Total Net Position of Governmental Activities	\$ (137,282)

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

SALIDA MONTESSORI CHARTER SCHOOL

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 875,255
State Sources	34,387
Federal Sources	170,500
 TOTAL REVENUES	 1,080,142
EXPENDITURES	
Instruction	673,136
Supporting Services	248,606
 TOTAL EXPENDITURES	 921,742
 NET CHANGE IN FUND BALANCE	 158,400
FUND BALANCE, Beginning	125
FUND BALANCE, Ending	\$ 158,525

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

Net Change in Fund Balance of the Governmental Fund	\$ 158,400
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$8,895 exceeded depreciation expense (\$297) in the current year.	8,598
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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 (\$1,214,355), pension-related deferred outflows of resources \$927,111, and pension-related deferred inflows of resources (\$17,161) in the current year.	(304,405)
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Change in Net Position of Governmental Activities	\$ (137,407)
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The accompanying notes are an integral part of the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Salida Montessori Charter School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school in Salida, Colorado. The School entered into a contract with the Colorado Charter School Institute (the “Institute”) to authorize the School for an initial term of three years, through June 30, 2018. The School began operations in the Fall of 2015.

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 there is a potential for the organization to provide benefits to, or impose financial burdens on, the School. Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

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. *Governmental activities*, which are normally supported by taxes and 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 revenues not properly included among program revenues are reported instead as *general revenues*.

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*. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

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

Assets, Liabilities and Net Position/Fund Balance

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

Capital Assets - Capital assets are reported in the government-wide 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 has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Equipment	5 years
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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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Compensated Absences - School employees may accumulate up to 16 days of unused sick leave. The School does not reimburse or otherwise compensate employees for any unused sick leave at separation of employment. Therefore, no liability is reported in the financial statements for these compensated absences.

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition, fees, and grants received before the eligibility requirements established by the provider have been met.

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. The School carries commercial insurance for these risks of loss.

NOTE 2: CASH AND INVESTMENTS**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.

SALIDA MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

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
- Local government investment pools

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

Credit Risk - State statutes limit 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 a single issuer, except for corporate securities.

The School had no investments at June 30, 2016.

NOTE 3: CAPITAL ASSETS

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

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>6/30/16</u>
Governmental Activities				
Capital Assets, Being Depreciation				
Equipment	\$ -	\$ 8,895	\$ -	\$ 8,895
Accumulated Depreciation	<u>-</u>	<u>(297)</u>	<u>-</u>	<u>(297)</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 8,598</u>	<u>\$ -</u>	<u>\$ 8,598</u>

Depreciation expense was charged to the supporting services program.

NOTE 4: 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 5). The School's contributions to the SDTF for the year ended June 30, 2016, were \$73,807, equal to the required contributions.

SALIDA MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: 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 \$1,214,355, 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 0.0079399216%. The School began participating in the SDTF on July 1, 2015, and therefore, had no measurable proportion of the net pension liability at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$380,282. 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	\$ 16,036	\$ -
Changes of assumptions and other inputs	-	17,161
Net difference between projected and actual earnings on plan investments	84,694	-
Change in proportion	780,487	-
Contributions subsequent to the measurement date	<u>45,894</u>	<u>-</u>
Total	<u>\$ 927,111</u>	<u>\$ 17,161</u>

School contributions subsequent to the measurement date of \$45,894 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	\$ 316,386
2018	316,386
2019	210,109
2020	<u>21,175</u>
Total	<u>\$ 864,056</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

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:

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:

SALIDA MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

<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><u>100.00%</u></u>	

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>\$ 1,574,159</u>	<u>\$ 1,214,355</u>	<u>\$ 915,065</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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: 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 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, as set by State statute. 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 year ended June 30, 2016, was \$4,005, equal to the required amount.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Claims and Judgements

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 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 approved 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 \$28,500.

Operating Leases

In April, 2015, the School entered into a one-year agreement to lease educational facilities. Monthly lease payments of \$2,000 commenced in August, 2015. During the year ended June 30, 2016, the School paid \$22,000, under this agreement. In July, 2016, the School approved a similar agreement through July, 2017, with an option to extend the lease for an additional year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: **COMMITMENTS AND CONTINGENCIES** (Continued)

Operating Leases (Continued)

In addition, in April, 2015, the School entered into a one-year agreement to lease a second location, commencing July 1, 2015. The School paid \$6,600 in advance for the first six months of the agreement. Beginning in January, 2016, monthly lease payments of \$1,000, plus utilities, were required by the agreement. During the year ended June 30, 2016, the School paid \$13,460 under this agreement. In July, 2016, the School extended this agreement for an additional year, including monthly lease payments of \$2,200. The School may extend this lease agreement for an additional year.

REQUIRED SUPPLEMENTARY INFORMATION

SALIDA 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

	12/31/15
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	
School's Proportion of the Net Pension Liability	0.0079399216%
School's Proportionate Share of the Net Pension Liability	\$ 1,214,355
School's Covered-Employee Payroll	\$ 173,010
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	702%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%
	6/30/16
SCHOOL CONTRIBUTIONS	
Statutorily Required Contribution	\$ 69,802
Contributions in Relation to the Statutorily Required Contribution	(69,802)
Contribution Deficiency (Excess)	\$ 0
School's Covered-Employee Payroll	\$ 392,638
Contributions as a Percentage of Covered-Employee Payroll	17.78%

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.

SALIDA MONTESSORI CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 485,295	\$ 493,000	\$ 492,424	\$ (576)
Tuition	182,233	245,973	191,169	(54,804)
Student Activities	-	32,500	32,879	379
Contributions	34,431	101,500	81,880	(19,620)
Grants	-	76,410	76,446	36
Investment Income	-	20	27	7
Miscellaneous Revenue	-	5,468	430	(5,038)
State Sources				
At-Risk Supplemental Aid	-	3,361	3,106	(255)
Additional At-Risk Funding	-	-	211	211
Capital Construction	17,200	17,570	17,888	318
Grants	4,850	14,649	13,182	(1,467)
Federal Sources				
Grants	3,750	255,549	170,500	(85,049)
TOTAL REVENUES	<u>727,759</u>	<u>1,246,000</u>	<u>1,080,142</u>	<u>(165,858)</u>
EXPENDITURES				
Instruction				
Salaries	290,690	379,926	346,630	33,296
Employee Benefits	89,320	99,307	93,515	5,792
Purchased Professional Services	14,600	20,625	10,232	10,393
Other Purchased Services	2,000	2,750	12,492	(9,742)
Supplies and Materials	40,500	162,838	140,646	22,192
Property	30,000	31,126	69,621	(38,495)
Other	4,263	35,831	-	35,831
Total Instruction	<u>471,373</u>	<u>732,403</u>	<u>673,136</u>	<u>59,267</u>
Supporting Services				
Salaries	70,200	70,200	73,168	(2,968)
Employee Benefits	26,181	28,181	22,070	6,111
Purchased Professional Services	32,460	62,154	54,506	7,648
Purchased Property Services	46,550	48,650	40,681	7,969
Other Purchased Services	38,791	65,479	38,124	27,355
Supplies and Materials	4,850	14,604	16,983	(2,379)
Property	-	107,731	-	107,731
Other	2,600	4,100	3,074	1,026
Total Supporting Services	<u>221,632</u>	<u>401,099</u>	<u>248,606</u>	<u>152,493</u>
TOTAL EXPENDITURES	<u>693,005</u>	<u>1,133,502</u>	<u>921,742</u>	<u>211,760</u>
NET CHANGE IN FUND BALANCE	34,754	112,498	158,400	45,902
FUND BALANCE, Beginning	<u>-</u>	<u>125</u>	<u>125</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 34,754</u>	<u>\$ 112,623</u>	<u>\$ 158,525</u>	<u>\$ 45,902</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

Budgets and Budgetary Accounting

A budget is adopted for the School 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, for their approval. The budget includes proposed expenditures and the means of financing them.

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 budget appropriations lapse at fiscal year end.