

**MOUNTAIN MIDDLE SCHOOL**

**BASIC FINANCIAL STATEMENTS**  
**AND REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED**  
**JUNE 30, 2016**



**RECEIVED**

*By Justin L. Smith at 2:15 pm, Jan 03, 2017*

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## **MOUNTAIN MIDDLE SCHOOL MANAGEMENT DISCUSSION AND ANALYSIS**

### **Perspective on Past Fiscal Year**

The Mountain Middle School (MMS) Head of School is very pleased with the diligence and thoroughness of financial management shown by the Business Manager over the past fiscal year. As a result, the June 30, 2016 Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance reports a net change in Fund balance of (\$169,660). The decrease is attributed to the use of funds in connection with the purchase of the existing MMS facility.

### **Financial Analysis of Past Fiscal Year**

The overall decrease in Fund balance from \$444,430 in 2015 to \$274,770 in 2016, as a result of Mountain Foundation for Education's (MFE) purchase of the existing facility, enabled MFE to initiate construction for expansion of the facility for future growth. The Fund balance includes Funds restricted for emergencies in the amount of \$41,707, which exceeds the amount required by the State of Colorado.

Mountain Foundation for Education, a nonprofit corporation, is considered to be financially accountable to the School. The purpose of MFE is to hold title to property and facilitate the acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property to be leased to MMS. MFE is considered to be part of MMS for financial reporting purposes because its resources are entirely for the direct benefit of MMS and is blended into MMS's financial statements as a proprietary fund. Separate financial statements are not available.

MMS' actual expenditures were fewer than budgeted amounts of the General Fund by \$80,109, largely due to expenses in General Administrative Fees and Expenses, Maintenance & Repair and Leasehold Improvements being less than budgeted amounts.

### **Perspective on Coming Fiscal Year**

MMS management is very optimistic about the financial prospects of MMS in the coming fiscal year, due in part to the following conditions:

1. Per Pupil Revenue has been increased by the State of Colorado for the coming fiscal year - a difference of approximately \$300 per student.
2. Mountain Middle School is operating at full enrollment (187 students) with wait lists in all three grades plus additional students in our newly added homeschool program, and it is anticipated that we will maximize per pupil revenue allocated by the State going into the October enrollment count day.

3. Mountain Middle School is planning to submit an application for the federal expansion grant in October for our new 4th and 5th grade and homeschool program. This grant would equate to \$90,000 per year for three years totaling \$270,000.
4. Mountain Middle School has partnered with School District 9-R and Animas High School on a mill levy that will be voted on in November. This mill levy is estimated at \$350 per student per year if passed. This would equate to an estimated \$86,450 per year in additional revenue.

### **Improvements Planned for the Coming Year**

1. Complete our construction project that includes an additional 5,000 sq. ft. with three new classrooms and a main office area.
2. Pursue the federal expansion grant to help provide the necessary furnishings, technology, curriculum, and professional development for our expanded program.
3. Pursue a mill levy tax override on the November ballot with School District 9-R and Animas High School.
4. Fulfill our stipulation agreement with the City of Durango to complete our school improvements.

### **Conclusion**

The MMS administration has continued to effectively and efficiently manage the school's finances while leveraging the school's academic performance to expand our vision and mission to reach more students in Durango. Our financial statements provide clear evidence of the sustainability of our financial operations and our consistent academic achievement provides a high demand for enrollment. Mountain Middle School has gone to lottery six years in a row and the numbers of students having submitted intent to enroll in our new 4th and 5th grade indicate that we will go to lottery for a 7th year with demand far outnumbering the number of available seats. The School's Charter Contract was unanimously approved by the Charter School Institute's board of directors through June 30th, 2021. The school has successfully partnered with the local school district on a mill levy ballot measure. This is the first time in the history of Colorado that a CSI charter school has partnered with their local school district for a potential mill levy. The school has successfully partnered with the City of Durango on a number of improvement projects for our school and neighborhood with a stipulation agreement. The school has become the region's first Net zero school producing more electricity with its solar array than it consumes setting an example for all schools. The school has partnered with Fort Lewis College with a class on progressive education being taught at Mountain Middle School. The college students are placed in our classes to learn progressive educational practices. We look forward to many years of high performance and partnerships to provide the best experience for our students and community.



Shane Voss  
Head of School  
Mountain Middle School

# Mountain Middle School

## GOVERNMENTAL FUND BALANCE SHEETS JUNE 30, 2016 AND 2015

	2016	2015	Variance
<b>ASSETS:</b>			
Cash	\$ 298,608	\$ 447,011	\$ (148,403)
Accounts receivable	22,469	32,401	(9,932)
Prepaid expenses	6,671	1,382	5,289
Total Assets	327,748	480,794	(153,046)
<b>LIABILITIES:</b>			
Accounts payable	21,277	6,610	14,667
Accrued expenses	6,898	6,131	767
Deferred revenues	24,803	23,623	1,180
Total Liabilities	52,978	36,364	16,614
<b>FUND BALANCE:</b>			
Nonspendable	6,671	1,382	5,289
Restricted for emergencies	41,707	41,707	-
Restricted	9,813	125,000	(115,187)
Unassigned	216,579	276,341	(59,762)
Total Fund Balance	274,770	444,430	(169,660)
Total Liabilities and Fund Balance	327,748	480,794	(153,046)

## GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015	Variance
<b>REVENUES:</b>			
Local sources	128,439	318,345	(189,906)
State sources	1,348,953	1,243,001	105,952
Federal sources	30,094	18,112	11,982
Total Revenues	1,507,486	1,579,458	(71,972)
<b>EXPENDITURES:</b>			
Instructional	762,814	690,431	72,383
Supporting services	914,332	755,655	158,677
Total Expenditures	1,677,146	1,446,086	231,060
Net Change in Fund Balance	(169,660)	133,372	(303,032)
Beginning of the year	444,430	311,058	133,372
End of the year	\$ 274,770	\$ 444,430	\$ (169,660)

# Mountain Middle School

## STATEMENTS OF NET POSITION JUNE 30, 2016 AND 2015

	2016	2015	Variance
<b>ASSETS:</b>			
Cash	\$ 298,608	\$ 447,011	\$ (148,403)
Accounts receivable	22,468	32,401	(9,933)
Prepaid expenses	6,671	1,382	5,289
Capital assets, net of accumulated depreciation	<u>73,845</u>	<u>83,221</u>	<u>(9,376)</u>
Total Assets	<u>401,592</u>	<u>564,015</u>	<u>(162,423)</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Difference between projected and actual earnings on pension plan	<u>358,856</u>	<u>105,596</u>	<u>253,260</u>
<b>LIABILITIES:</b>			
Accounts payable	21,276	6,610	14,666
Accrued expenses	6,898	6,131	767
Deferred revenues	24,803	23,623	1,180
Net Pension Liability	<u>2,395,993</u>	<u>2,051,190</u>	<u>344,803</u>
Total Liabilities	<u>2,448,970</u>	<u>2,087,554</u>	<u>361,416</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Difference between expected and actual experience on pension plan	<u>63,113</u>	<u>46,150</u>	<u>16,963</u>
<b>NET POSITION:</b>			
Investment in capital assets	73,845	83,221	(9,376)
Restricted for emergencies	41,707	41,707	-
Restricted	9,813	125,000	(115,187)
Unrestricted	<u>(1,877,000)</u>	<u>(1,714,021)</u>	<u>(162,979)</u>
Total Net Position (Deficit)	<u>\$ (1,751,635)</u>	<u>\$ (1,464,093)</u>	<u>\$ (287,542)</u>

## STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015	Variance
<b>EXPENDITURES/EXPENSES:</b>			
Governmental Activities:			
Instructional	\$ 841,717	\$ 720,008	\$ 121,709
Supporting services	<u>953,311</u>	<u>831,823</u>	<u>121,488</u>
Total expenditures	<u>1,795,028</u>	<u>1,551,831</u>	<u>243,197</u>
<b>PROGRAM REVENUES:</b>			
Operating grants and contributions	82,009	230,966	(148,957)
Capital grants and contributions	<u>46,528</u>	<u>29,626</u>	<u>16,902</u>
Net program expense	(1,666,491)	1,291,239	375,252
<b>GENERAL REVENUES:</b>			
Per pupil revenue	1,276,773	1,190,019	86,754
Other income	480	6,582	(6,102)
Student fees	101,669	103,225	(1,556)
Fundraising	-	18,995	(18,995)
Interest income	<u>27</u>	<u>45</u>	<u>(18)</u>
Total general revenues	<u>1,378,949</u>	<u>1,318,866</u>	<u>60,083</u>
Change in net assets	(287,542)	27,627	(315,169)
<b>NET POSITION:</b>			
Beginning of the year	(1,464,093)	451,695	(1,915,788)
Prior Period Adjustment	-	(1,943,415)	1,943,415
Beginning of year, adjusted	<u>(1,464,093)</u>	<u>(1,491,720)</u>	<u>27,627</u>
End of the year	<u>(1,751,635)</u>	<u>(1,464,093)</u>	<u>(287,542)</u>

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Mountain Middle School  
Durango, Colorado

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

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

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Mountain Middle 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 required supplementary information as 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 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.

*May Jackson Hendrick, LLC*

Parker, Colorado  
September 21, 2016

***BASIC FINANCIAL STATEMENTS***

**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**JUNE 30, 2016**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash	\$ 298,608	\$ 17,119	\$ 315,727
Accounts receivable	22,468	-	22,468
Prepaid expenses	6,671	4,887	11,558
Capital assets, net of accumulated depreciation	73,845	998,268	1,072,113
Total Assets	<u>401,592</u>	<u>1,020,274</u>	<u>1,421,866</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Difference between projected and actual investment earnings on pension plan	358,856	-	358,856
Total Deferred Outflows of Resources	<u>358,856</u>	<u>-</u>	<u>358,856</u>
<b>LIABILITIES:</b>			
Accounts payable	21,276	157,664	178,940
Accrued expenses	6,898	-	6,898
Unearned revenues	24,803	-	24,803
Noncurrent liabilities:			
Due in more than one year:			
Net pension liability	2,395,993	-	2,395,993
Total Liabilities	<u>2,448,970</u>	<u>157,664</u>	<u>2,606,634</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Difference between expected and actual experience on pension plan	63,113	-	63,113
Total Deferred Inflows of Resources	<u>63,113</u>	<u>-</u>	<u>63,113</u>
<b>NET POSITION (DEFICIT):</b>			
Investment in capital assets	73,845	998,268	1,072,113
Restricted for TABOR	41,707	-	41,707
Restricted	9,813	-	9,813
Unrestricted	(1,877,000)	(135,658)	(2,012,658)
Total Net Position (Deficit)	<u>\$ (1,751,635)</u>	<u>\$ 862,610</u>	<u>\$ (889,025)</u>

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

**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSES) REVENUE AND CHANGE IN NET POSITION (DEFICIT)</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>PRIMARY GOVERNMENT</b>							
Governmental Activities:							
Instructional	\$ 841,717	\$ 101,669	\$ -	\$ -	\$ (740,048)	\$ -	\$ (740,048)
Supporting services	<u>615,919</u>	<u>-</u>	<u>82,009</u>	<u>46,528</u>	<u>(487,382)</u>	<u>-</u>	<u>(487,382)</u>
Total Governmental Activities	<u>1,457,636</u>	<u>101,669</u>	<u>82,009</u>	<u>46,528</u>	<u>(1,227,430)</u>	<u>-</u>	<u>(1,227,430)</u>
Business-type Activities:							
Building corporation	<u>11,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,072</u>	<u>11,072</u>
Total Business-type Activities	<u>11,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,072)</u>	<u>(11,072)</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 1,468,708</u>	<u>\$ 101,669</u>	<u>\$ 82,009</u>	<u>\$ 46,528</u>	<u>(1,227,430)</u>	<u>(11,072)</u>	<u>(1,238,502)</u>
GENERAL REVENUES:							
					1,276,773	-	1,276,773
					-	365,000	365,000
					27	-	27
					480	-	480
					<u>(337,392)</u>	<u>337,392</u>	<u>-</u>
					<u>939,888</u>	<u>702,392</u>	<u>1,642,280</u>
					(287,542)	691,320	403,778
					<u>(1,464,093)</u>	<u>171,290</u>	<u>(1,292,803)</u>
					<u>\$ (1,751,635)</u>	<u>\$ 862,610</u>	<u>\$ (889,025)</u>

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

**MOUNTAIN MIDDLE SCHOOL**  
**BALANCE SHEET -**  
**GOVERNMENTAL FUND**  
**JUNE 30, 2016**

	<u>General Fund</u>
<b>ASSETS:</b>	
Cash	\$ 298,608
Accounts receivable	22,469
Prepaid expenses	<u>6,671</u>
Total Assets	<u>\$ 327,748</u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 21,277
Accrued expenses	6,898
Unearned revenues	<u>24,803</u>
Total Liabilities	<u>52,978</u>
<b>FUND BALANCE:</b>	
Nonspendable	6,671
Restricted for TABOR	41,707
Restricted	9,813
Unassigned	<u>216,579</u>
Total Fund Balance	<u>274,770</u>
Total Liabilities and Fund Balance	<u>\$ 327,748</u>
Amounts reported for Governmental Activities in the Statement of Net Position (Deficit) are different because:	
Fund Balance - Governmental Fund	\$ 274,770
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.	73,845
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.	358,856
Long-term liabilities, including net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,395,993)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.	<u>(63,113)</u>
Net Position (Deficit) - Governmental Activities	<u>\$ (1,751,635)</u>

**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND**  
**YEAR ENDED JUNE 30, 2016**

	General Fund
<b>REVENUES:</b>	
Local sources	\$ 128,439
State and Federal sources	1,379,047
Total Revenues	1,507,486
 <b>EXPENDITURES:</b>	
Instructional	762,814
Supporting services	914,332
Total expenditures	1,677,146
 Net Change in Fund Balance	 (169,660)
 FUND BALANCE, Beginning	 444,430
 FUND BALANCE, Ending	 \$ 274,770

**MOUNTAIN MIDDLE SCHOOL**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGE IN FUND BALANCE -  
GOVERNMENTAL FUND 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 Balance - Governmental Fund	\$ (169,660)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current year.

	(9,377)
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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 the governmental funds.

	<u>(108,505)</u>
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Change in Net Position - Governmental Activities	<u>\$ (287,542)</u>
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**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF NET POSITION -**  
**PROPIETARY FUND TYPE**  
**JUNE 30, 2016**

	Building Corporation
<b>ASSETS:</b>	
Current Assets	
Cash	\$ 17,119
Prepaid expenses	4,887
Total Current Assets	22,006
Noncurrent Assets	
Capital assets, net of accumulated depreciation	998,268
Total Noncurrent Assets	998,268
Total Assets	1,020,274
<b>LIABILITIES:</b>	
Current Liabilities	
Accounts payable	157,664
Total Current Liabilities	157,664
Total Liabilities	157,664
<b>NET POSITION:</b>	
Investment in capital assets, net of related debt	840,604
Unrestricted	22,006
Total Net Position	\$ 862,610

**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGE IN NET POSITION - PROPRIETARY FUND TYPE**  
**YEAR ENDED JUNE 30, 2016**

	Building Corporation
<b>OPERATING REVENUES:</b>	
Contributions	\$ 702,392
Total Operating Revenues	702,392
<b>OPERATING EXPENSES:</b>	
Management and general expenses	5,696
Depreciation	4,097
Building expenses	1,279
Total Operating Expenses	11,072
Operating Income	691,320
NET POSITION, Beginning	171,290
NET POSITION, Ending	\$ 862,610

**MOUNTAIN MIDDLE SCHOOL**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE**  
**YEAR ENDED JUNE 30, 2016**

	<u>Building Corporation</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received	\$ 337,392
Operating expenses	<u>145,402</u>
Net Cash Provided by Operating Activities	<u>482,794</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of fixed asset	<u>(610,688)</u>
Net Cash Used by Investing Activities	<u>(610,688)</u>
Net Change in Cash	(127,894)
Cash, Beginning	<u>145,013</u>
Cash, Ending	<u><u>\$ 17,119</u></u>
 <b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Net Income (Loss)	\$ 691,320
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,097
In-kind contributions	(365,000)
Increase/Decrease in assets and liabilities:	
Prepaid expenses	(4,887)
Accounts payable	<u>157,264</u>
Net cash provided by operating activities	<u><u>\$ 482,794</u></u>

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

Mountain Middle School (MMS or the School), a Colorado non-profit corporation, was created in 2009 pursuant to the Colorado Charter Schools Act to form and operate a charter school located in Durango, Colorado. The school began operations in August, 2011.

Mountain Middle School integrates technology and project-based learning into a rigorous liberal arts curriculum that prepares students to succeed in the 21st Century as self-motivated, innovative thinkers who seek to resolve challenges collaboratively. The School offers a rigorous, personalized curriculum that is engaging and meaningful and delivers their curriculum through projects. As a result, students have the opportunity to apply their learning through relevant, real-world experiences.

MMS complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) requirements have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**Financial Reporting Entity**

The financial reporting entity consists of the School and organizations for which the School is financially accountable. 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.

Mountain Foundation for Education (MFE or the Corporation) is considered to be financially accountable to the School. The purpose of the Corporation is to hold title to property and facilitate the acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property to be leased to the School. The Corporation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School's financial statements as a proprietary fund. Separate financial statements are not available.

MMS is managed under the direction of the Board of Directors. All Directors have been elected, appointed, or designated.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

**Basis of Presentation**

**Government-wide and Fund Financial Statements:**

The Statement of Net Position (Deficit) and Statements of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds (of which MMS has none). The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of the given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

The School reports the following major governmental fund:

*General Fund* – This fund is the general operating fund of the School. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Additionally, the School reports the following major proprietary fund:

*The Building Corporation Fund* – This fund is used to account for the activities of Mountain Foundation for Education, the Building Corporation.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

**Measurement Focus:**

In the government-wide Statement of Net Position (Deficit) and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

a. Current Financial Resources - Only current financial assets and liabilities are generally included on the balance sheet. Operating statements present sources and uses of available spendable financial resources during a given period. The fund uses a fund balance as the measure of available spendable financial resources at the end of the period.

b. Economic Resources - The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**Basis of Accounting**

In the government-wide Statement of Net Position (Deficit) and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

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

**Cash:**

For the purpose of both the government-wide and fund financial statements, “cash” includes the checking account for MMS.

**Accounts Receivable:**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

In the fund financial statements, grants receivables in governmental funds include revenue accruals such as grants and other similar intergovernmental revenues since they are usually both measurable and available.

**Prepaid Expenses:**

Payments made to vendors for services that will benefit periods beyond the current year are recorded as prepaid expenses. Expenditures are reported in the year in which the services are consumed.

**Capital Assets:**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. MMS' policy is to capitalize all capital assets with a unit value of \$1,000 or greater. Repairs and maintenance expenses are charged as expenditures when incurred.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position (Deficit). Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. Capital assets are depreciated over their estimated useful lives of three to thirty-nine years.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

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

Unearned Revenue:

Unearned revenue includes amounts received but not available to recognize as revenue as the related expenses have not been incurred.

Pensions:

MMS 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.

Fund Balance / Net Position (Deficit) Classifications:

Government-wide Statements:

Net position (deficit) is classified in the following categories:

*Investment in capital assets* – This classification includes capital assets net of accumulated depreciation.

*Restricted for TABOR* – This classification includes the TABOR Reserve Fund which requires MMS to maintain a reserve for emergencies equal to 3% of the eligible annual revenues as required by law.

*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.

*Unrestricted* – This classification includes net assets that have not been restricted for other purposes.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

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

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

Fund Balance / Net Position (Deficit) Classifications (Continued):

MMS may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is MMS' policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Statements:

Fund balances are classified in the following categories:

*Nonspendable* – This classification includes all assets which are not expected to convert to cash.

*Restricted for TABOR* – This classification includes the TABOR Reserve Fund which requires MMS to maintain a reserve for emergencies equal to 3% of the eligible annual revenues as required by law.

*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.

*Unassigned* – This classification includes the residual fund balance for the General Fund.

MMS would typically use Restricted fund balances first, followed by Committed resources (if any), and then Assigned resources (if any), as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**Use of Estimates**

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 2      STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budget and Budgetary Accounting**

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

The School 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 year-end.

**NOTE 3      DETAIL NOTES ON TRANSACTIONS/ACCOUNTS**

**Cash**

As of June 30, 2016, the School had the following cash:

Checking	\$ 315,727
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**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires 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.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 3**      **DETAIL NOTES ON TRANSACTIONS/ACCOUNTS (Continued)**

**Capital Assets**

Capital Assets activity for the year ended June 30, 2016 is as follows:

	Balance			Balance
	June 30, 2015	Additions	Deletions	June 30, 2016
Governmental Activities				
Capital Assets:				
Leasehold Improvements	\$ 284,682	\$ 55,773	\$ -	\$ 340,455
FFE	36,069	1,300	1,249	36,120
Land Improvements	<u>3,038</u>	<u>-</u>	<u>-</u>	<u>3,038</u>
Total Capital Assets	<u>323,789</u>	<u>57,073</u>	<u>1,249</u>	<u>379,613</u>
Accumulated Depreciation:				
Leasehold Improvements	225,146	58,539	-	283,685
FFE	13,407	6,672	771	19,308
Land Improvements	<u>2,015</u>	<u>760</u>	<u>-</u>	<u>2,775</u>
Total Accumulated Depreciation	<u>240,568</u>	<u>65,971</u>	<u>771</u>	<u>305,768</u>
Net Capital Assets	<u>\$ 83,221</u>			<u>\$ 73,845</u>
<u>Business-type Activities:</u>				
Capital Assets:				
Building	\$ 26,677	\$ 975,688	\$ -	\$ 1,002,365
Total Capital Assets	<u>26,677</u>	<u>975,688</u>	<u>-</u>	<u>1,002,365</u>
Accumulated Depreciation:				
Building	<u>-</u>	<u>4,097</u>	<u>-</u>	<u>4,097</u>
Total Accumulated Depreciation	<u>-</u>	<u>4,097</u>	<u>-</u>	<u>4,097</u>
Net Capital Assets	<u>\$ 26,677</u>			<u>\$ 998,268</u>

Depreciation expense in the Statement of Activities - Governmental Activities for the Instructional was \$65,971.

Depreciation expense in the Statement of Activities - Business-type Activities was \$4,097.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 3**      **DETAIL NOTES ON TRANSACTIONS/ACCOUNTS (Continued)**

**Deferred Revenue**

Deferred revenue represents student fees and lunch balances allocated to the next school year. As of June 30, 2016, MMS had the following deferred revenue:

2016 – 2017 Student fees	\$ 23,024
2016 – 2017 Student lunch balances	<u>1,779</u>
Total	<u>\$ 24.803</u>

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN**

**General Information about the Pension Plan**

*Plan Description* – Eligible employees of MMS are provided with pensions through the School Division Trust Fund (SCHDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](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. Section 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 annualized into a monthly benefit based on life expectancy and other actuarial factors.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (Continued)**

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annualized member contribution account balance 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. Benefits 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 Works (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 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, and the qualified survivor(s) who will receive the benefits.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (Continued)**

*Contributions* – Eligible employees and MMS are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. Section 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, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF	17.33%	18.13%

Rates are expressed as a percentage of salary as defined in C.R.S. Section 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and MMS is statutorily committed to pay the contribution to the SCHDTF. Employer contributions recognized by the SCHDTF from MMS were \$124,079 for the year ended June 30, 2016.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, MMS reported a liability of \$2,395,993 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. MMS proportion of the net pension liability was based on MMS' contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, MMS' proportion was .0156659238 percent, which was an increase of .0005317434 from its proportion measured as of December 31, 2014.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (Continued)**

For the year ended June 30, 2016, MMS recognized pension expense of \$242,140. At June 30, 2016, MMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 188,195	\$ 33,959
Changes in assumptions or other inputs	4,438	-
Net difference between projected and actual earnings on pension plan investments	47,171	-
Changes in proportion and difference between contributions recognized and proportionate share of contributions	51,072	29,154
Contributions subsequent to the measurement date	67,980	-
Total	\$ 358,856	\$ 63,113

\$67,980 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	\$ 3,906
2018	9,027
2019	18,609

*Actuarial assumptions* – The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (Continued)**

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

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

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (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.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 4**      **DEFINED BENEFIT PENSION PLAN (Continued)**

*Sensitivity of the MMS 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	\$ 3,105,906	\$ 2,395,992	\$ 1,805,476

*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).

**NOTE 5**      **POSTEMPLOYMENT HEALTH CARE BENEFITS**

**Health Care Trust Fund**

*Plan Description* – MMS contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by the 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* – MMS 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 MMS are 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 MMS’ contributions to the HCTF were \$6,964, \$6,580 and \$6,385, respectively, equal to their required contributions for each year.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 6**      **CONCENTRATION OF CREDIT RISK**

MMS' financial instruments that are exposed to concentrations of credit risk consist of cash and accounts receivable. MMS places its cash with high credit quality institutions. MMS routinely assesses the financial strength of its donors and, as a consequence, believes that its accounts receivable credit risk exposure is limited.

**NOTE 7**      **RISK OF LOSS**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; injuries to employees; and natural disasters. The School purchases commercial insurance for these risks of loss.

**NOTE 8**      **COMMITMENTS AND CONTINGENCIES**

**Lease Commitment**

The School entered into a lease agreement in January 2016 with Mountain Foundation for Education to lease the school for \$1,000 a month. The lease agreement stipulated that the School make leasehold improvements equal to the six months of lease payments (\$6,000) in lieu of making payments directly to MFE. The lease terminated on June 30, 2016.

Therefore, the School made leasehold improvements to the school in the amount of \$6,000 and recorded the leasehold improvements to occupancy expense. As a result, occupancy expense for the year ended June 30, 2016 was \$6,000.

**Taxpayer's Bill of Rights (TABOR)**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

TABOR also requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. MMS is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2016 there was a \$41,707 reservation of fund balance in the General Fund for TABOR.

**MOUNTAIN MIDDLE SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 8**      **COMMITMENTS AND CONTINGENCIES (Continued)**

**Current Vulnerability Due to Certain Concentrations and Uncertainties**

The School is dependent on various government agencies for funding and is responsible for meeting the requirements of such agencies. If the School were to lose students or the related government funding, there could be a substantial effect on its ability to continue operations.

**NOTE 9**      **EVALUATION OF SUBSEQUENT EVENTS**

Subsequent to the fiscal year end, June 30, 2016, MFE entered into a construction loan agreement with a financial institution for an expansion to the building purchased during the fiscal year. MFE accounts payable at June 30, 2016 of 157,664 include \$155,489 of construction costs associated with the building expansion which were paid via the construction loan subsequent to June 30, 2016.

The School has evaluated subsequent events through September 21, 2016, the date which the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

**MOUNTAIN MIDDLE SCHOOL**  
**SCHEDULE OF EMPLOYER'S SHARE OF**  
**NET PENSION LIABILITY AND COVERED PAYROLL**  
**YEAR ENDED JUNE 30, 2016**

	<u>December 31, 2013</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>
School's proportion of net pension liability	0.0156316526%	0.0151341804%	0.0156659238%
School's proportionate share of the net pension liability	\$ 1,993,813	\$ 2,051,190	\$ 2,395,992
School's covered-employee payroll	\$ 630,162	\$ 633,931	\$ 682,717
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	316.40%	323.57%	350.95%
Plan fiduciary net position as a percentage of the total pension liability	64.10%	62.80%	59.20%

\* Complete 10-year information to be presented in future years as it becomes available.

**MOUNTAIN MIDDLE SCHOOL**  
**SCHEDULE OF EMPLOYER'S STATUTORY**  
**PAYROLL CONTRIBUTIONS AND COVERED PAYROLL**  
**YEAR ENDED JUNE 30, 2016**

	<u>December 31, 2013</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Contractually required contribution	\$ 97,864	\$ 104,168	\$ 125,279
Contributions in relation to the contractually required contribution	<u>97,864</u>	<u>104,168</u>	<u>124,079</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,200</u>
School's covered-employee payroll	630,162	633,931	682,717
Contributions as a percentage of covered-employee payroll	15.53%	16.43%	18.35%

\* Complete 10-year information to be presented in future years as it becomes available.

**MOUNTAIN MIDDLE SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2016**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
<b>Local Sources:</b>			
Cash donations	\$ 19,065	\$ 26,263	\$ 7,198
Student fees	32,600	101,669	69,069
Other income	59,110	480	(58,630)
Interest	25	27	2
	110,800	128,439	17,639
<b>State Sources:</b>			
State equalization	1,286,100	1,276,773	(9,327)
Special education grants	25,598	25,652	54
Capital construction grants	46,260	46,528	268
	1,357,958	1,348,953	(9,005)
<b>Federal Sources:</b>			
Special education grants	30,094	30,094	-
	30,094	30,094	-
<b>Total Revenues</b>	1,498,852	1,507,486	8,634
<b>Expenditures:</b>			
<b>Instructional Services:</b>			
Salaries and benefits	672,109	665,588	6,521
Materials, supplies and purchased services	80,504	97,226	(16,722)
<b>Total Instructional Services</b>	752,613	762,814	(10,201)
<b>Supporting Services:</b>			
<b>Instructional Improvement</b>			
Salaries and benefits	120,847	120,066	781
Materials, supplies and purchased services	34,710	31,604	3,106
	155,557	151,670	3,887
<b>General Administration</b>			
Administrative fees	46,583	23,906	22,677

**MOUNTAIN MIDDLE SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Administration			
Salaries and benefits	172,823	173,831	(1,008)
Materials, supplies and purchased services	136,522	111,997	24,525
	<u>309,345</u>	<u>285,828</u>	<u>23,517</u>
Facilities			
Salaries and benefits	14,460	13,698	762
Rent and utilities	25,705	22,006	3,699
Materials, supplies and purchased services	22,000	13,168	8,832
Leasehold improvements	95,000	56,664	38,336
Facilities transfer	313,392	331,392	(18,000)
	<u>470,557</u>	<u>436,928</u>	<u>33,629</u>
Development Services			
Materials, supplies and purchased services	7,200	-	7,200
	<u>7,200</u>	<u>-</u>	<u>7,200</u>
Technology			
Materials, supplies and purchased services	15,400	16,000	(600)
	<u>15,400</u>	<u>16,000</u>	<u>(600)</u>
<b>Total Supporting Services</b>	<u>1,004,642</u>	<u>914,332</u>	<u>90,310</u>
<b>Total Expenditures</b>	<u>1,757,255</u>	<u>1,677,146</u>	<u>80,109</u>
<b>Excess of Revenues over Expenditures</b>	(258,403)	(169,660)	88,743
<b>Fund Balance - beginning of year</b>	311,058	444,430	133,372
<b>Fund Balance - end of year:</b>			
<b>Nonspendable</b>	-	6,671	6,671
<b>Restricted for Tabor</b>	41,707	41,707	-
<b>Restricted</b>	10,948	9,813	(1,135)
<b>Unassigned</b>	-	216,579	216,579
<b>Total Fund Balance - end of year</b>	<u>\$ 52,655</u>	<u>\$ 274,770</u>	<u>\$ 222,115</u>