

MONTESORI DEL MUNDO

FINANCIAL STATEMENTS

June 30, 2016



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MONTESSORI DEL MUNDO

June 30, 2016

Board of Directors

Chair	Jesus Escarcega
Treasurer	Wendy Sullivan
Secretary	Rachel Schiller
Member	Benito Vega
Member	Gregory Hatcher
Member	Amanda Mailloux
Member	Greg Moore

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Board of Directors
Montessori del Mundo
Aurora, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of Montessori del Mundo 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 Montessori del Mundo, 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 Montessori del Mundo 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 12, 2016

MONTESSORI DEL MUNDO

Management's Discussion and Analysis Fiscal Year Ending June 30, 2016

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

Financial Highlights

The year ended June 30, 2016 was the second year of operations for MDM. The general fund balance for the fiscal year ending June 30, 2016 is \$546,415.

The operations of MDM are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$1,597,455.

During the year ended June 30, 2016, MDM received \$300,000 in loan proceeds from the Charter Schools Development Corporation (CSDC) to finance leasehold improvements. Monthly payments are due and interest accrues at 7% annually as the proceeds are spent.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to MDM'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 MDM's finances in a manner similar to a private-sector business.

The statement of net position presents information on all MDM's assets, liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of MDM is improving or deteriorating. The statement of activities presents information showing how MDM'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, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of MDM that are primarily supported by the per pupil operating revenue passed from the Colorado Charter School Institute. These activities include instruction and supporting services.

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. MDM keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Notes to Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of MDM's financial position. For the year ended June 30, 2016, MDM's total net position was a negative (\$732,391) due to the net pension liability in the amount of \$2,667,603, representing its proportionate share of the net pension liability of 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).

Of MDM's total net position, \$131,553 is the Net Investment in Capital Assets, negative (\$983,765) is unrestricted and \$63,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. An additional \$56,821 is restricted for future capital outlay using the balance of MDM's deposit with CSDC.

MDM has Adopted GASB 68

MDM's Net Position is a negative (\$732,391). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$2,667,603, representing its proportionate share of the SDTF's net pension liability.

Statement of Net Position	2015-2016	2014-2015
Assets		
Cash	\$ 212,985	\$ 276,296
Restricted Cash	373,749	-
Accounts Receivable	23,390	13,770
Grants Receivable	22,972	29,556
Prepaid Expenses	19,574	-
Deposits	10,000	10,000
Capital Assets, Net of Accumulated Depreciation	131,553	30,698
Total Assets	794,223	360,320
Deferred Outflows of Resources		
Pensions, Net of Accumulated Amortization	1,595,024	1,377,655
Liabilities		
Accounts Payable	39,988	18,931
Accrued Liabilities	25,978	20,172
Accrued Salaries and Benefits	50,289	35,915
Noncurrent Liabilities		
Due in More Than One Year	300,000	-
Net Pension Liability	2,667,603	1,743,238
Total Liabilities	3,083,858	1,818,256
Deferred Inflows of Resources		
Pensions, Net of Accumulated Amortization	37,780	130
Net Position		
Net Investment in Capital Assets	131,553	30,698
Restricted for Capital Outlay	56,821	-
Restricted for Emergencies	63,000	48,000
Unrestricted	(983,765)	(159,109)
Total Net Position	\$ (732,391)	\$ (80,411)

Change in Net Position	2015-2016	2014-2015
Revenues		
Per Pupil Revenue	\$ 1,597,455	\$ 1,140,617
Charges for Services	146,058	169,605
Operating Grants and Contributions	385,712	226,089
Grants and Contributions not Restricted to Specific Programs	155,865	231,372
At-Risk Supplemental Aid	939	13,996
Additional At-Risk Funding	1,631	-
Capital Construction	48,881	26,918
Other	7,445	3,987
Total Revenue	2,343,986	1,812,584
Expenses		
Instruction	1,962,846	1,107,771
Support Services	1,033,120	768,428
Total Expenses	2,995,966	1,876,199
Increase (decrease) in net position	(651,980)	(63,615)
Net Position, Beginning	(80,411)	(16,796)
Net Position, Ending	\$ (732,391)	\$ (80,411)

Financial Analysis of MDM's Funds

Governmental Funds

The focus of MDM's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MDM's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of MDM's net resources available to spend at the end of the fiscal year.

As of the end of the current fiscal year, MDM's general fund reported an ending fund balance of \$546,415, an increase of \$291,811 over the year ended June 30, 2015.

General Fund Budgetary Highlights

MDM budgeted for General Fund revenues of \$2,521,574 and expenditures of \$2,884,192 for the year ended June 30, 2016. Actual revenues were \$2,343,986 and actual expenditures were \$2,352,175.

There was a budget amendments during the year, which reflected a slight decrease in revenues, an increase in expenditures, and the addition of debt proceeds as the result of lower-than-expected enrollment and the availability of financing to make leasehold improvements.

Capital Asset and Debt Administration

Capital Assets

MDM's net investment in capital assets as of June 30, 2016 amounts to \$131,553. Capital assets consist of leasehold improvements and leasehold improvements under construction. More information regarding capital assets can be found in Note 3 to the financial statements.

Long-term Debt

MDM's long-term debt as of June 30, 2016 amounts to \$300,000. In November 2015 the Montessori del Mundo Building Corporation entered into an agreement with the Charter Schools Development Corporation (CSDC) for a loan to finance leasehold improvements. Monthly payments are due and interest begins to accrue at 7% annually once the proceeds are spent. More information regarding long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for MDM is student enrollment. There were 210.6 students for the 2015-2016. The student enrollment projected for the 2016-2017 school year is expected to be 169.80 in addition to 64 early childhood students. This factor was considered in preparing MDM's budget for 2016-2017.

Requests for Information

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

Montessori del Mundo Charter School
15503 E. Mississippi Avenue
Aurora, CO 80017

BASIC FINANCIAL STATEMENTS

MONTESSORI DEL MUNDO

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 212,985
Restricted Cash	373,749
Accounts Receivable	23,390
Grants Receivable	22,972
Prepaid Expenses	19,574
Deposits	10,000
Capital Assets, Net of Accumulated Depreciation	<u>131,553</u>
TOTAL ASSETS	<u>794,223</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>1,595,024</u>
LIABILITIES	
Accounts Payable	39,988
Accrued Liabilities	25,978
Accrued Salaries and Benefits	50,289
Noncurrent Liabilities	
Due in More Than One Year	300,000
Net Pension Liability	<u>2,667,603</u>
TOTAL LIABILITIES	<u>3,083,858</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>37,780</u>
NET POSITION	
Net Investment in Capital Assets	131,553
Restricted for Capital Outlay	56,821
Restricted for Emergencies	63,000
Unrestricted	<u>(983,765)</u>
TOTAL NET POSITION	<u>\$ (732,391)</u>

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

MONTESSORI DEL MUNDO

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 1,962,846	\$ 146,058	\$ 305,712	\$ (1,511,076)
Supporting Services	<u>1,033,120</u>	<u>-</u>	<u>80,000</u>	<u>(953,120)</u>
Total Governmental Activities	<u>\$ 2,995,966</u>	<u>\$ 146,058</u>	<u>\$ 385,712</u>	<u>(2,464,196)</u>
GENERAL REVENUES				
				1,597,455
				1,631
				939
				48,881
				155,865
				<u>7,445</u>
				TOTAL GENERAL REVENUES
				<u>1,812,216</u>
				CHANGE IN NET POSITION
				(651,980)
				NET POSITION, Beginning
				<u>(80,411)</u>
				NET POSITION, Ending
				<u>\$ (732,391)</u>

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

MONTESSORI DEL MUNDO

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash	\$ 212,985
Restricted Cash	373,749
Accounts Receivable	23,390
Grants Receivable	22,972
Prepaid Expenditures	19,574
Deposits	<u>10,000</u>
TOTAL ASSETS	<u>\$ 662,670</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 39,988
Accrued Liabilities	25,978
Accrued Salaries and Benefits	<u>50,289</u>
TOTAL LIABILITIES	<u>116,255</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	19,574
Nonspendable Deposits	10,000
Restricted for Capital Outlay	356,821
Restricted for Emergencies	63,000
Unrestricted, Unassigned	<u>97,020</u>
TOTAL FUND BALANCE	<u>546,415</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 662,670</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 546,415
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	131,553
Long-term liabilities and related items, including loan payable (\$300,000), net pension liability (\$2,667,603), pension-related deferred outflows of resources \$1,595,024, and pension-related deferred inflows of resources (\$37,780), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(1,410,359)</u>
Total Net Position of Governmental Activities	<u>\$ (732,391)</u>

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

MONTESSORI DEL MUNDO

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

	GENERAL
REVENUES	
Local Sources	\$ 1,926,470
State Sources	163,784
Federal Sources	253,732
TOTAL REVENUES	2,343,986
EXPENDITURES	
Instruction	1,368,411
Supporting Services	803,146
Capital Outlay	168,618
Debt Service	
Debt Issuance Costs	12,000
TOTAL EXPENDITURES	2,352,175
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,189)
OTHER FINANCING SOURCES	
Debt Proceeds	300,000
NET CHANGE IN FUND BALANCE	291,811
FUND BALANCE, Beginning	254,604
FUND BALANCE, Ending	\$ 546,415
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ 291,811
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 \$107,205 exceeded depreciation expense (\$6,350) in the current year.	100,855
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. This amount represents debt issued in the current year.	(300,000)
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 the net pension liability (\$924,365), pension-related deferred outflows of resources \$217,369, and pension-related deferred inflows of resources (\$37,650) in the current year.	(744,646)
Change in Net Position of Governmental Activities	\$ (651,980)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Montessori del Mundo (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. On January 15, 2013, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) to authorize the School for an initial term of five years, through June 30, 2019. The School began operations in the Fall of 2014.

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

Reporting Entity

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

The School includes the Montessori del Mundo Building Corporation (the “Corporation”) within its reporting entity. The Corporation is a non-profit entity organized for the exclusive purpose of acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with the property leased to the School. The Corporation has no financial balances or transactions outside of those reported by the School, and therefore, is not reported separately in the financial statements. The Corporation does not issue separate financial statements.

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 normally are 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.

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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.

In the fund financial statements, the School reports the following major governmental fund:

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

Assets, Liabilities and Net Position/Fund Balance

Cash and Investments - Investments are reported at fair value.

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. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized.

Capital assets are amortized or depreciated using the straight-line method over the life of the related lease agreement or the estimated useful lives, as follows:

Leasehold Improvements	10 years
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MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 the school year of approximately nine to ten months. The accrued salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Long-Term Debt - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

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

Net Position/Fund Balances - 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

The School's cash at June 30, 2016, consisted of the following:

Petty Cash	\$ 139
Bank Deposits	188,536
Cash Held by Third Parties	<u>398,059</u>
Total	<u><u>\$ 586,734</u></u>

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

Cash is reported in the financial statements as follows:

Cash	\$ 212,985
Restricted Cash	<u>373,749</u>
Total	<u><u>\$ 586,734</u></u>

Deposits

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

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. 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

The School had no investments at June 30, 2016.

Restricted Cash

At June 30, 2016, the Charter Schools Development Corporation held loan proceeds and School deposits of \$373,749 restricted for capital outlay, as determined by the related loan agreement (See Note 4).

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CAPITAL ASSETS

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

	<u>Balances</u> <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/16</u>
Governmental Activities				
Capital Assets, Not Being Amortized				
Construction in Progress	\$ 30,698	\$ 107,205	\$ 84,658	\$ 53,245
Capital Assets, Being Amortized				
Leasehold Improvements	-	84,658	-	84,658
Accumulated Amortization	-	(6,350)	-	(6,350)
Total Capital Assets, Being Amortized	-	78,308	-	78,308
Governmental Activities Capital Assets, Net	<u>\$ 30,698</u>	<u>\$ 185,513</u>	<u>\$ 84,658</u>	<u>\$ 131,553</u>

Amortization expense was charged to the supporting services program.

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2015.

	<u>Balance</u> <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/16</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
CSDC Loan	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ -</u>

In November, 2015, the Corporation entered into a loan agreement with the Charter Schools Development Corporation (CSDC) in the amount of \$300,000. Loan proceeds will be used for improvements to the School's facilities. In addition, the School deposited \$112,927 with CSDC to supplement the project. The loan bears interest at 7% per annum, beginning once the loan proceeds are spent. Monthly principal and interest payments of \$3,483 will commence at that time.

NOTE 5: 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.

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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 6). The School's contributions to the SDTF for the year ended June 30, 2016, were \$166,429, equal to the required contributions.

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 \$2,667,603, 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 0.0174418183%, which was an increase of .0045797780% from its proportion measured at December 31, 2014.

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2016, the School recognized pension expense of \$903,446. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 35,226	\$ 82
Changes of assumptions and other inputs	-	37,698
Net difference between projected and actual earnings on plan investments	216,116	-
Changes in proportion	1,251,135	-
Contributions subsequent to the measurement date	<u>92,547</u>	<u>-</u>
Total	<u>\$ 1,595,024</u>	<u>\$ 37,780</u>

School contributions subsequent to the measurement date of \$92,547 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	\$ 697,221
2018	555,892
2019	165,072
2020	<u>46,512</u>
Total	<u>\$ 1,464,697</u>

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

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

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease .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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of net pension liability	<u>\$ 3,457,993</u>	<u>\$ 2,667,603</u>	<u>\$ 2,010,146</u>

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

NOTE 6: 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 years ended June 30, 2016 and 2015 was \$9,040 and 6,296, respectively, equal to the required amounts for each year.

MONTESSORI DEL MUNDO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: 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 passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$63,000.

Operating Lease

On June 19, 2013, the Corporation entered into an agreement to lease an educational facility and simultaneously approved a sublease agreement with the School to use the facilities. Monthly lease payments of \$8,459 commenced in August, 2014. The lease agreement was modified in June, 2016. Beginning on June 1, 2016, through June 30, 2019, monthly payments range from \$11,421 to \$12,857. Subsequent monthly payments will be adjusted annually based on the change in consumer price index on August 1 of the immediately preceding lease year. The lease agreement expires on July 31, 2024, with two optional additional terms of five years each. During the year ended June 30, 2016, the School paid \$141,010, under this agreement.

A security deposit of \$10,000 was required by the lease agreement, and is reported as a deposit in the financial statements. In addition, the lease agreement requires monthly common area maintenance payments. For the year ended June 30, 2016, the School paid a total of \$70,770 for maintenance of the common area.

Following is a schedule of future minimum lease payments through June 30, 2019, after which time the payments will increase based on the consumer price index.

Year Ended June 30,

2017	\$ 148,083
2018	149,086
2019	<u>153,855</u>
Total	<u>\$ 451,024</u>

REQUIRED SUPPLEMENTARY INFORMATION

MONTESSORI DEL MUNDO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND
 June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
School's Proportion of the Net Pension Liability	0.0174418183%	0.0128620403%
School's Proportionate Share of the Net Pension Liability	\$ 2,667,603	\$ 1,743,238
School's Covered-Employee Payroll (6 months ended December 31, 2014)	\$ 760,109	\$ 269,413
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	647%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%
	<u>6/30/16</u>	<u>6/30/15</u>
SCHOOL CONTRIBUTIONS		
Statutorily Required Contribution	\$ 157,389	\$ 104,555
Contributions in Relation to the Statutorily Required Contribution	<u>(157,389)</u>	<u>(104,555)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 886,307	\$ 617,307
Contributions as a Percentage of Covered-Employee Payroll	17.76%	16.94%

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.

MONTESSORI DEL MUNDO

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	\$ 1,684,915	\$ 1,564,379	\$ 1,597,455	\$ 33,076
Tuition and Fees	197,818	170,297	146,058	(24,239)
Grants	275,000	400,000	170,109	(229,891)
Contributions and Fundraising	-	-	5,403	5,403
Miscellaneous	1,000	1,000	7,445	6,445
Total Local Sources	<u>2,158,733</u>	<u>2,135,676</u>	<u>1,926,470</u>	<u>(209,206)</u>
State Sources				
Additional At-Risk Funding	-	-	1,631	1,631
At-Risk Supplemental Aid	15,087	750	939	189
Capital Construction	46,200	42,160	48,881	6,721
Grants	42,504	38,787	112,333	73,546
Total State Sources	<u>103,791</u>	<u>81,697</u>	<u>163,784</u>	<u>82,087</u>
Federal Sources				
Grants	279,203	304,201	253,732	(50,469)
TOTAL REVENUES	<u>2,541,727</u>	<u>2,521,574</u>	<u>2,343,986</u>	<u>(177,588)</u>
EXPENDITURES				
Salaries	1,044,927	1,009,016	1,011,366	(2,350)
Employee Benefits	324,234	329,112	248,137	80,975
Purchased Services	653,801	632,056	627,690	4,366
Supplies and Materials	143,242	142,460	203,406	(60,946)
Property	9,100	9,100	65,095	(55,995)
Other	322,953	75,448	15,863	59,585
Capital Outlay	140,000	617,000	168,618	448,382
Debt Service				
Principal	-	40,000	-	40,000
Debt Issuance Costs	-	-	12,000	(12,000)
Contingency	-	30,000	-	30,000
TOTAL EXPENDITURES	<u>2,638,257</u>	<u>2,884,192</u>	<u>2,352,175</u>	<u>532,017</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(96,530)</u>	<u>(362,618)</u>	<u>(8,189)</u>	<u>354,429</u>
OTHER FINANCING SOURCES				
Debt Proceeds	-	300,000	300,000	-
NET CHANGE IN FUND BALANCE	<u>(96,530)</u>	<u>(62,618)</u>	<u>291,811</u>	<u>354,429</u>
FUND BALANCE, Beginning	<u>112,891</u>	<u>254,604</u>	<u>254,604</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 16,361</u>	<u>\$ 191,986</u>	<u>\$ 546,415</u>	<u>\$ 354,429</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

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

Changes in Assumptions and Other Inputs

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

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

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