Chadwick, Steinkirchner, Davis & Co., P.C. Consultants and Certified Public Accountants

MESA VALLEY COMMUNITY SCHOOL

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

September 15, 2017

Board of Directors
Mesa Valley Community School
Grand Junction, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mesa Valley Community School as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Mesa Valley Community 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 Mesa Valley Community School'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 Mesa Valley Community School'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.

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Board of Directors
Mesa Valley Community School
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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mesa Valley Community School as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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, schedule of activity - net pension liability, and schedule of activity - employer pension contributions 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.

Chadwick, Steinkirchner, Davis & Co., P.C.

Management's Discussion and Analysis

Mesa Valley Community School

June 30, 2017

As management of the Mesa Valley Community School (MVCS), we offer readers of MVCS's financial statements this narrative overview and analysis of the financial activities of MVCS for the fiscal year ended June 30, 2017.

Financial Highlights

The liabilities and deferred inflows of MVCS exceeded its assets and deferred outflows at the close of the most recent fiscal year by $1,957,941. Of this amount, $76,752 of net position is restricted for emergencies (TABOR).

At the end of the current fiscal year, fund balance for the governmental fund was $1,033,182.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MVCS's basic financial statements. MVCS's basic financial statements consist 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 MVCS's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of MVCS's assets and deferred outflows, and liabilities and deferred inflows, with the difference between these items reported as net position.

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

Both of the government-wide financial statements focus on the governmental activities of MVCS. The governmental activities include instructional services, student services, general administration services, school administration services, and maintenance. The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MVCS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of MVCS are governmental funds.

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

MVCS maintained one governmental fund.

MVCS adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget on page 12.

The basic general fund financial statements can be found on pages 9 through 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 13 through 29 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of MVCS, the liabilities and deferred inflows of MVCS exceeded its assets and deferred outflows at the close of the most recent fiscal year by $1,957,941.

MVCS's Net Position

	Governmental Activities	
	2015-2016	2016-2017
Current assets	$ 921,063	$ 1,154,632
Noncurrent assets	-	35,719
Total assets	921,063	1,190,351
Deferred Outflows of Resources		
Pensions changes and contributions	1,368,764	2,841,415
Total assets and deferred outflows of resources	2,289,827	4,031,766
Current liabilities	94,515	121,450
Long-term liabilities	2,716,756	5,836,753
Total liabilities	2,811,271	5,958,203
Deferred inflows of resources	46,596	31,504
Total liabilities and deferred inflows of resources	2,857,867	5,989,707
Net position:		
Restricted	80,804	76,752
Unrestricted	(648,844)	(2,034,693)
Total net position	(568,040)	(1,957,941)
Total liabilities, deferred inflows of resources and net position	$ 2,289,827	$ 4,031,766

Governmental activities. Governmental activities decreased MVCS's net position by $1,389,901. Key elements of this change are as follows:

MVCS's Change in Net Position

	Governmental Activities	
	2015-2016	2016-2017
Revenues:		
Charges for services	$ 3,424	$ 2,228
Operating grants	46,513	54,874
Capital grants	92,281	94,903
State equalization, general	2,551,258	2,408,939
Interest income	–	4,803
Total revenues	2,693,476	2,565,747
Expenses:		
Instructional services	1,847,287	2,856,903
Student support	765,982	752,782
School administration	60,698	77,920
Business support	75,778	90,556
Operations/maintenance	139,019	177,487
Total expenses	2,888,764	3,955,648
Change in net position	(195,288)	(1,389,901)
Net position – beginning	(372,752)	(568,040)
Net position – ending	$ (568,040)	$(1,957,941)

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

At the end of the current fiscal year, MVCS's governmental fund reported an ending fund balance of $1,033,182. *Unassigned fund balance* is $946,595. Restricted fund balances of $76,752 must be set aside for emergencies (TABOR). Nonspendable fund balance of $9,835 is a prepaid rent expense.

General Fund Budgetary Highlights

Amendments were made to the General Fund budget as shown on the budget to actual statement on page 12. Actual revenues were lower than budgeted because student count was lower than planned. Expenditures were less than budget by $101,257 because of conservative spending policies.

Long-term debt. MVCS's long-term debt consists of $65,079 for future compensated absences and $5,771,674 in net pension liability. Additional details related to MVCS's long-term debt can be found in Note E and G on pages 19 through 28 of the financial report.

Economic Factors and Next Year's Budget

This was the third year in operation as a District Charter School and operations were at 95% estimated enrollment capacity. Next year, for the 2017-2018 year budget, it is anticipated to operate at about 100% of enrollment capacity, hence increasing our revenue.

Requests for Information

This financial report is designed to provide a general overview of MVCS's finances for all those with an interest in MVCS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mesa Valley Community School Director by telephone at (970) 254-7202.

Mesa Valley Community School

STATEMENT OF NET POSITION

June 30, 2017

		Governmental Activities
ASSETS		
Cash and investments		$ 1,119,184
Accounts receivable		25,613
Prepaid expenses		9,835
	Total current assets	1,154,632
Noncurrent assets		
Depreciable capital assets, net		35,719
	Total assets	1,190,351
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension		2,841,415
	Total deferred outflows of resources	2,841,415
	Total assets and deferred outflows of resources	$ 4,031,766
LIABILITIES		
Accounts payable		$ 9,938
Accrued payroll liabilities		111,512
	Total current liabilities	121,450
Long-term liabilities due more than one year:		
Compensated absences payable		65,079
Net pension liability		5,771,674
	Total liabilities	5,958,203
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension		31,504
	Total deferred inflows of resources	31,504
NET POSITION		
Restricted for emergencies		76,752
Unrestricted		(2,034,693)
	Total net position	(1,957,941)
	Total liabilities, deferred inflows of resources, and net position	$ 4,031,766

The accompanying notes are an integral part of the statements.

Mesa Valley Community School

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:						
Instructional services	$ 2,856,903	$ 2,228	$ 54,874	$ 94,903	$ (2,704,898)	$ (2,704,898)
Support services:						
Student support	752,782	-	-	-	(752,782)	(752,782)
School administration	77,920	-	-	-	(77,920)	(77,920)
Business support	90,556	-	-	-	(90,556)	(90,556)
Operations and maintenance	177,487	-	-	-	(177,487)	(177,487)
Total support services	1,098,745	-	-	-	(1,098,745)	(1,098,745)
Total governmental activities	$ 3,955,648	$ 2,228	$ 54,874	$ 94,903	(3,803,643)	(3,803,643)
General revenues:						
State equalization					2,408,939	2,408,939
Interest income					4,803	4,803
Total general revenues					2,413,742	2,413,742
Change in net position					(1,389,901)	(1,389,901)
Net position - beginning					(568,040)	(568,040)
Net position - ending					$ (1,957,941)	$ (1,957,941)

The accompanying notes are an integral part of the statements.

Mesa Valley Community School

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2017

		General Fund
ASSETS		
Cash and investments	$	1,119,184
Accounts receivable		25,613
Prepaid expenses		9,835
Total assets	$	1,154,632
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$	9,938
Accrued payroll liabilities		111,512
Total liabilities		121,450
Fund balances		
Nonspendable		9,835
Restricted - TABOR reserve		76,752
Unassigned		946,595
Total fund balances		1,033,182
Total liabilities and fund balances	$	1,154,632

Total governmental fund balance (as reported above)	$	1,033,182
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		35,719
Compensated absences reported as liabilities in governmental activities are not reported in the fund.		(65,079)
The amount by which deferred outflows of resources are more than deferred inflows of resources, both of which are not recorded in the fund ($2,841,415-$31,504)		2,809,911
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund.		(5,771,674)
Net position of governmental activities	$	(1,957,941)

The accompanying notes are an integral part of the statements.

Mesa Valley Community School

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

Year ended June 30, 2017

		General Fund
Revenues		
Local sources		$ 7,194
State sources		2,551,367
Federal sources		7,186
	Total revenues	2,565,747
Expenditures		
Current		
Instructional services		1,221,901
Student support		752,782
School administration		77,920
Business support		90,556
Operation and maintenance		177,487
Capital outlay		38,467
	Total expenditures	2,359,113
	Revenues in excess (deficiency) of expenditures	206,634
Fund balance beginning of year		826,548
Fund balance end of year		$ 1,033,182

The accompanying notes are an integral part of the statements.

Mesa Valley Community School

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance - total governmental fund	$ 206,634
In the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. In the governmental funds, capital outlays are an expenditure in the current period. This is the amount by which depreciation was less than capital expenditures ($2,748-$38,467).	35,719
In the governmental funds, expenditures related to pension obligations are measured by the amount of financial resources used (essentially, the amounts actually paid to the pension plan), whereas in the statement of activities, they are measured on full accrual basis. This is the amount by which pension expense in the statement of activities was more than pension expenditures in the governmental funds.	(1,612,728)
Governmental funds do not report accrued compensated absences as part of expenditures. However, they are reported as expenses in the statement of activities. This is the amount that accrued compensated absences changed in the Statement of Net Position from the prior year.	(19,526)
Change in net position of governmental activities	$ (1,389,901)

The accompanying notes are an integral part of the statements.

Mesa Valley Community School

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET AND ACTUAL

Year ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Local sources	$ -	$ -	$ 7,194	$ 7,194
State sources	2,629,053	2,527,361	2,551,367	24,006
Federal sources	14,760	7,185	7,186	1
Total revenues	2,643,813	2,534,546	2,565,747	31,201
Expenditures				
Current				
Instructional services	1,376,887	1,304,927	1,221,901	83,026
Student support	313,788	735,696	752,782	(17,086)
School administration	877,178	228,074	77,920	150,154
Business support	17,935	15,533	90,556	(75,023)
Operation and maintenance	15,000	141,140	177,487	(36,347)
Capital outlay	10,000	35,000	38,467	(3,467)
Total expenditures	2,610,788	2,460,370	2,359,113	101,257
Revenues in excess (deficiency) of expenditures	33,025	74,176	206,634	132,458
Fund balance beginning of year	-	-	826,548	826,548
Fund balance end of year	$ 33,025	$ 74,176	$ 1,033,182	$ 959,006

The accompanying notes are an integral part of the statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mesa Valley Community School (the School) have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

The following is a summary of the School's significant accounting policies:

1. The Reporting Entity

Mesa Valley Community School consists of a school established under the Charter Schools Act serving K-12 grade students. It is governed by an independently elected Board of Directors. The School is considered a component unit of Mesa County Valley School District, and is reported discretely in a separate column on their financial statements to emphasize that it is legally separate from the District.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Mesa Valley Community School presently has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a 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 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenue and other items not properly included among program revenues are reported instead as general revenues.

3. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenue, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed.

The School reports the following major governmental fund:

The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

4. Assets, Liabilities and Net Position or Equity

Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the School are reported at fair value.

Receivables

The School considers all receivables to be fully realizable and does not maintain an allowance for doubtful accounts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements as applicable. Capital assets are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The School has no reportable infrastructure.

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

Property, plant, and equipment of the School is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Leasehold improvements	7

5. Stewardship, compliance and accountability

Budgetary Information

Prior to May 15, management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes expenditures and the means of financing them. Public board meetings are conducted to obtain comments. Prior to June 30, the budget is adopted by the Board.

During the budget year, the Board of Directors has the option of changing and finalizing the budget for the fiscal year. One supplemental budget amendment was adopted during the fiscal year ended June 30, 2017.

Budgeted level of expenditures

Expenditures may not legally exceed appropriations at the fund level. Administrative control is maintained through the use of detailed line-item budgets. Budgets must be amended at the fund level by the Board of Directors. At year-end, all appropriations lapse in accordance with Colorado statutes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary basis of accounting

Appropriated budgets are adopted by the Board of Directors for the General Fund on a basis consistent with generally accepted accounting principles (GAAP).

6. Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School files its informational return, Internal Revenue Service form 990, for the federal jurisdiction on an annual basis.

7. Pensions

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

NOTE B – CASH AND INVESTMENTS

The carrying value of cash deposits in banking institutions as of June 30, 2017 is as follows:

Demand accounts	$ 317,700

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government including component units deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. As of June 30, 2017, the School had deposits of $325,407, of which $250,000 was covered by federal depository insurance and $75,407 was collateralized.

NOTE B – CASH AND INVESTMENTS – CONTINUED

State statutes authorize the School to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of 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, and local government investment pools.

At June 30, 2017, the School had $801,484 invested in the Colorado Surplus Asset Fund Trust (CSAFE) investment vehicle established for local governmental entities in Colorado to pool surplus funds for investment purposes. At June 30, 2017, the approximate market value of the School's investments is $801,484. CSAFE is rated AAAm by Standard & Poor's Corporation.

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles and GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. C-SAFE operates like a 2a-7 external investment pool and investments in the pool are valued at $1 net asset value (NAV) per share. The underlying investments held by C-SAFE are valued at amortized cost which approximates fair value.

Interest rate risk – The School does not have a formal policy limiting investment maturities, other than that established by state statute of five years that would help manage its exposure to fair value losses from increasing interest rates.

NOTE C – CAPITAL ASSETS

The following is a summary of activity in the capital assets for the year ended June 30, 2017:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	$ –	$ 38,467	$ –	$ 38,467
Accumulated Depreciation	–	(2,748)	–	(2,748)
Net Depreciable Assets	$ –	$ 35,719	$ –	$ 35,719

Depreciation expense was charged for functions/programs of the School as follows:

Governmental activities:

Instructional services	$2,748

NOTE D – FUND BALANCES

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a School's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expenses) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the School's highest level of decision making authority, the Board of Directors, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The School will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is School policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned.

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, if any, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvements on those assets, excluding unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE E – LONG-TERM DEBT

The School's long-term debt consists of the following:

	Balance June 30, 2016	Additions (Reductions)	Balance June 30, 2017
Future compensated absences	$ 45,553	$ 19,526	$ 65,079
Net pension liability	2,671,203	3,100,471	5,771,674
	$ 2,716,756	$ 3,119,997	$ 5,836,753

NOTE F – OPERATING LEASE

The School entered a 5-year operating lease in June 2014 for use of land and a building. The lease requires monthly payments of $9,200 beginning in July 2014 and increasing slightly each subsequent year of the lease. Total lease expense during fiscal year 2017 was $115,140.

Future minimum lease payments under the operating lease for the years following June 30, 2017 are as follows:

Year	
2018	$ 118,020
2019	121,260
Total	$ 239,280

NOTE G – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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 annuitized 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. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year.

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

	For the Calendar Year Ended December 31, 2016	For the Calendar Year Ended December 31, 2017
Employer Contribution Rate[1]	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	4.50%	5.00%
Total Employer Contribution Rate to the SCHDTF[1]	18.13%	18.63%

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

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were $172,908 for the year ended June 30, 2017.

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

At June 30, 2017, the School reported a liability of $5,771,674 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The School proportion of the net pension liability was based on the School contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the School proportion was .01939 percent, which was an increase of .00192 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of $1,785,637. At June 30, 2017, the School 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	$ 72,155	$ 51
Changes of assumptions or other inputs	1,872,788	26,027
Net difference between projected and actual earnings on pension plan investments	192,993	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	615,022	5,426
Contributions subsequent to the measurement date	88,457	-
Total	$ 2,841,415	$ 31,504

$88,457 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, 2018.

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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:	
2018	1,343,002
2019	921,020
2020	455,506
2021	1,926
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
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
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
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

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and were effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
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

Mortality rates used in the December 31, 2015 valuation 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. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 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.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected rate of return on pension plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.

- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.

- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.

- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant 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.

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Allocation**	**30 Year Expected Geometric Real Rate of Return**
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
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 7.25%.

Discount Rate. The discount rate used to measure the total pension liability was 5.26 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:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

- 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 3.50%.

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

- 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.

- 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 assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate.

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	$7,257,694	$5,771,674	$4,561,364

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.

NOTE H – OTHER POST-EMPLOYMENT BENEFITS – HEALTH CARE TRUST FUND

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

NOTE H – OTHER POST-EMPLOYMENT BENEFITS – HEALTH CARE TRUST FUND – CONTINUED

Funding Policy. The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ended June 30, 2017, 2016, and 2015, the School contributions to the HCTF were $9,594, $8,080, and $7,347, respectively, equal to its required contributions for each year.

NOTE I – RISK MANAGEMENT

The School insures against loss or damage to property; pays premiums on loss insurances; and pays judgments, administrative and legal claims. This activity occurs in the General Fund.

The School is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. The School uses workers compensation and other liability insurance to help mitigate these risks. During the year ended June 30, 2017, the School paid $16,743 in related insurance premiums to insurers.

NOTE J – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the Amendment. However, the School has made certain interpretations of the Amendment's language in order to determine its compliance.

Mesa Valley Community School

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2017

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
Measurement date:					
December 31, 2014	0.01755%	$ 2,379,186	$ 361,480	658%	63%
December 31, 2015	0.01747%	2,671,203	750,060	356%	59%
December 31, 2016	0.01939%	5,771,674	870,034	663%	43%

Mesa Valley Community School

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2017

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2015	$ 123,772	$ 123,772	$ -	$ 720,285	17%
June 30, 2016	141,956	141,956	-	800,685	18%
June 30, 2017	172,908	172,908	-	940,615	18%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26% based on the municipal bond index rate. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.