

ROSS MONTESSORI SCHOOL
BASIC FINANCIAL STATEMENTS

June 30, 2017



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JOHN CUTLER & ASSOCIATES

Board of Directors
Ross Montessori School
Carbondale, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Ross Montessori School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Ross Montessori School, as of and for the year ended June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 28-30 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.

John Luttler & Associates, LLC

October 18, 2017

Ross Montessori School
Mark Ross Montessori Foundation
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2017

As Management of Ross Montessori School (the School) and the Mark Ross Montessori Foundation (the Foundation), we offer readers of these financial statements, narrative and analysis of the financial activities of the School and Foundation for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

Financial Highlights: The year ended June 30, 2017, was the twelfth year of operations for the School. The School General Fund had Excess of Revenues Over Expenditures of \$208,442 versus budget estimate of \$1,142. As a result, the General Fund Ending Fund Balance increased to \$669,482 as of June 30, 2017.

The Mark Ross Montessori Foundation Fund generated Total Revenues of \$483,745 for the year ended June 30, 2017, down from \$640,234 in the prior year, and incurred operating expenses of \$65,334, up from \$54,803 the prior year. In addition, the Foundation donated \$50,000 to the School Operating Fund, representing the Annual Fund proceeds for the year.

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

The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue (PPR) was \$2,082,475. This was an increase from \$1,790,946 received in fiscal year 2016-2017.

Overview of Financial Statements: This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The basic statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the School's finances similar to that manner of a private sector business.

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

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like governmental entities, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities. The fund tracking is reported in the auditor's report.

The School adopts an annual budget for its general fund.

Profit & Loss July 2016 through June 2017:

	<u>Jul '16 - Jun 17</u>
Ordinary Income/Expense	
Income	
1400 · Building Rental	26,645.30
1750 · Fundraising	7,098.58
1920 · Contr.-MRMF	50,000.00
1500 · Earnings on Investments	116.80
1700 · Pupil Activities	282,766.91
3000 · State Revenue	123,590.18
4000 · Federal Revenue	28,228.00
5710 · Per Pupil Revenue	2,083,225.26
Total Income	<u>2,601,671.03</u>
Gross Profit	2,601,671.03
Expense	
0900 · Property Taxes	10,206.55
Recission	750.64
7425 · MRMF	0.00
0000 · Suspense	1,301.21
0290 · Health Ski Pass Benefit	0.00
0100 · Salaries	1,244,489.41
0200 · Benefits	361,911.69
0300 · CDE 1% + Other Prof. Serv.	113,161.21
0400 · Purchased Property Services	348,791.88
0430 · Repairs and Maintenance	23,135.92
0442 · Rental of Equipment	5,475.32
0500 · Other Purchased Services	49,773.20
0520 · Insurance	42,919.00
0580 · Travel, Registration, Entrance	22,924.31
0600 · Materials and Supplies	150,177.33
0640 · Books and Periodicals	-691.94
0730 · Equipment	12,733.62
0810 · Dues and Fees	2,414.52
Total Expense	<u>2,389,473.87</u>
Net Ordinary Income	212,197.16
Other Income/Expense	
Other Income	
9998 · Other Income	340.00
Total Other Income	<u>340.00</u>

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

Government-wide Financial Analysis: Net position may be used as an indicator of the School's financial position over time. For the year ended June 30, 2017, the School's net position was \$(1,796,347). This is an decrease of \$(869,357) from the June 30, 2016 balance of \$(926,990). School Operations contributed net positive change to fund balance of \$17,211. The School's Operating Fund has positively contributed to the Fund Balance for six consecutive years.

Change in Net Position:

Jun 30, 17

ASSETS

Current Assets

Checking/Savings

8101 · Checking

734,365.54

8101b · Alpine Debit

4,316.82

8101a · Alpine Reserve

116,518.02

Total Checking/Savings

855,200.38

Accounts Receivable

8153 · Accounts Receivable

80,110.38

Total Accounts Receivable

80,110.38

Other Current Assets

Prepaid Insurance/Expenses

39,671.90

Total Other Current Assets

39,671.90

Total Current Assets

974,982.66

Fixed Assets

Bus #2

26,724.00

Total Fixed Assets

26,724.00

TOTAL ASSETS

1,001,706.66

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

7421 · Accounts Payable

8,401.83

Total Accounts Payable

8,401.83

Credit Cards

7420 · Capital One (2571)

10,759.84

Total Credit Cards

10,759.84

Other Current Liabilities

7474 · Existing/New Student Deposit

23,900.00

7471 · Payroll Liabilities

217,699.29

Total Other Current Liabilities

241,599.29

Total Current Liabilities

260,760.96

Total Liabilities

260,760.96

Equity

Reserve for Capital Improvement

25,000.00

6761 · TABOR 3% Reserve

78,810.00

6770 · Unrestricted Net Assets

424,599.21

Net Income

212,536.49

Total Equity

740,945.70

TOTAL LIABILITIES & EQUITY

1,001,706.66

Financial Analysis of Ross Montessori School's Funds: The School uses three funds to account for its financial activities: General Fund, Foundation Fund, and Non Major Capital Reserve Fund. The General Fund shows the primary operations of the School. The General Fund ended the year with a positive fund balance of \$669,482 at June 30, 2017. The Foundation Fund reflects the activities of the Mark Ross Montessori Foundation, which receives, maintains, and administers, funds received as gifts for the benefit of the School. The Foundation also owns the land and the building, as well as incurs the debt for the building. The Foundation Fund has a positive fund balance of \$287,879 at year end. The Capital Fund was not used this year.

Capital Assets and Debt Administration: The School has a Land Asset in the amount of \$1,258,111, and Capital Assets consisting of Land Improvements, the Building, and Equipment, net of Accumulated Depreciation, in the amount of \$7,065,149. Total Capital Assets balance as of June 30, 2017 was \$8,323,260. Long Term Debt consists of the USDA Loans for Construction of the new School Building. Balances funded on the Loans as of June 30, 2017 was \$6,959,855. See Notes 4 and 6 for more information.

Economic factors and Next Year's Budget: The primary factor driving the budget for the School continues to be student enrollment. Enrollment for the 2016-17 school year was 293. Enrollment for the 2017-18 school year is budgeted to increase to 320. Per pupil funding levels drive the revenues for the School. With increases in the PPR revenue, the School should benefit from increased funding. This bodes well for the School's operations as more and consistent funding provides a stable base of operations for the School. The School continues to reach out to potential students in neighboring communities and hopes to maintain steady to increasing enrollment levels. Based on the budget approved by the Board in June 2017, it is expected that revenues for 2017-18 will be sufficient to meet all operating expenditures, and the School's Operating Fund is expected to show Positive Net Income for the eighth consecutive year.

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

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

BASIC FINANCIAL STATEMENTS

ROSS MONTESSORI SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2017

	GOVERNMENTAL ACTIVITIES	
	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 1,103,230	\$ 951,366
Restricted Cash and Cash Equivalents	39,441	371,406
Accounts Receivable, net	36,443	23,003
Prepaid Expenses	39,672	22,036
Capital Assets, Not Being Depreciated	1,258,111	1,258,111
Capital Assets, Depreciated, Net of Accumulated Depreciation	7,065,149	6,955,246
	<u>9,542,046</u>	<u>9,581,168</u>
TOTAL ASSETS		
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	2,644,594	687,965
	<u>2,644,594</u>	<u>687,965</u>
LIABILITIES		
Accounts Payable	19,826	202,249
Accrued Salaries and Benefits	217,699	203,302
Unearned Revenue	23,900	22,110
Noncurrent Liabilities		
Due in One Year	108,367	104,155
Due in More than One Year	6,851,488	6,978,291
Net Pension Liability	6,492,859	3,634,503
	<u>13,714,139</u>	<u>11,144,610</u>
TOTAL LIABILITIES		
DEFERRED INFLOW OF RESOURCES		
Related to Pensions	268,848	51,513
	<u>268,848</u>	<u>51,513</u>
NET POSITION		
Net Investment in Capital Assets	1,363,405	1,130,911
Restricted for Emergencies	72,000	63,000
Restricted for Capital Campaign	248,438	479,110
Unrestricted	(3,480,190)	(2,600,011)
	<u>(3,480,190)</u>	<u>(2,600,011)</u>
TOTAL NET POSITION	<u>\$ (1,796,347)</u>	<u>\$ (926,990)</u>

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

ROSS MONTESSORI SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	FOUNDATION FUND	TOTAL GOVERNMENTAL FUNDS	
			2017	2016
ASSETS				
Cash and Cash Equivalents	\$ 855,200	\$ 248,030	\$ 1,103,230	\$ 951,366
Restricted Cash and Cash Equivalents	-	39,441	39,441	371,406
Accounts Receivable	35,371	1,072	36,443	23,003
Due from Foundation Fund	-	-	-	350,500
Prepays	39,672	-	39,672	22,036
TOTAL ASSETS	\$ 930,243	\$ 288,543	\$ 1,218,786	\$ 1,718,311
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 19,162	\$ 664	\$ 19,826	\$ 202,249
Accrued Salaries and Benefits	217,699	-	217,699	203,302
Unearned Revenue	23,900	-	23,900	22,110
Due to General Fund	-	-	-	350,500
TOTAL LIABILITIES	260,761	664	261,425	778,161
FUND BALANCES				
Nonspendable for Prepays	39,672	-	39,672	22,036
Restricted for Emergencies	72,000	-	72,000	63,000
Restricted for Debt Service	-	39,441	39,441	-
Restricted for Capital Campaign	-	248,438	248,438	479,110
Unassigned	557,810	-	557,810	376,004
TOTAL FUND BALANCES	669,482	287,879	957,361	940,150
TOTAL LIABILITIES AND FUND BALANCES	\$ 930,243	\$ 288,543		

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

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

8,323,260 8,213,357

Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. These liabilities include loan payable (\$6,959,855) net pension liability (\$6,492,859), deferred outflows related to pensions \$2,644,594, and deferred inflows related to pensions (\$268,848).

(11,076,968) (10,080,497)

Net position of governmental activities

\$ (1,796,347) \$ (926,990)

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

ROSS MONTESSORI SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL FUND	FOUNDATION FUND	TOTAL GOVERNMENTAL FUNDS	
			2017	2016
REVENUES				
Local Sources	\$ 2,449,443	\$ 483,745	\$ 2,933,188	\$ 2,769,480
State Sources	148,682	-	148,682	124,743
Federal Sources	28,228	-	28,228	18,439
TOTAL REVENUES	<u>2,626,353</u>	<u>483,745</u>	<u>3,110,098</u>	<u>2,912,662</u>
EXPENDITURES				
Current				
Instruction	1,304,471	-	1,304,471	1,210,907
Supporting Services	1,100,706	65,334	1,166,040	1,008,774
Capital Outlay	12,734	307,790	320,524	5,882,097
Debt Service				
Principal	-	122,591	122,591	17,554
Interest	-	179,261	179,261	31,181
TOTAL EXPENDITURES	<u>2,417,911</u>	<u>674,976</u>	<u>3,092,887</u>	<u>8,150,513</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>208,442</u>	<u>(191,231)</u>	<u>17,211</u>	<u>(5,237,851)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	-	-	5,970,767
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,970,767</u>
NET CHANGE IN FUND BALANCES	208,442	(191,231)	17,211	732,916
FUND BALANCES, Beginning	<u>461,040</u>	<u>479,110</u>	<u>940,150</u>	<u>207,234</u>
FUND BALANCES, Ending	<u>\$ 669,482</u>	<u>\$ 287,879</u>	<u>\$ 957,361</u>	<u>\$ 940,150</u>

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

ROSS MONTESSORI SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$ 17,211
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense. This is the amount that capital outlay \$313,665, exceeded depreciation expense (\$203,762) for the year.	109,903
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	(1,119,062)
Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the School as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net position and do not result in an expense in the statement of activities.	<u>122,591</u>
Change in net position of governmental activities	<u><u>\$ (869,357)</u></u>

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

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

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed.

The School reports the following major governmental funds:

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

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

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

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

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The School's nonspendable amounts as of June 30, 2017 were nonspendable in form as prepaid expenses.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. As of June 30, 2017, the School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The school as also classified funds for the Capital Campaign and debt service as being restricted because their use is restricted by the contributors and debt covenants.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2017.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School purchases commercial insurance for these risks of loss. Settled claims have not exceeded this coverage in the last three years.

Comparative Data

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

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

At June 30, 2017, the School had deposits with financial institutions with a carrying amount of \$1,142,671. The bank balances with the financial institutions were \$1,149,924. Of these balances, \$250,000 was covered by federal depository insurance and \$899,924 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Restricted Cash

At June 30, 2017, cash in the amount of \$39,441 is restricted in the Foundation Fund to comply with USDA loan covenants.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2017 is summarized below.

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 1,258,111	\$ -	\$ -	\$ 1,258,111
Capital Assets, Being Depreciated				
Land Improvements	-	91,593	-	91,593
Building	7,020,914	165,722	-	7,186,636
Equipment	<u>210,040</u>	<u>56,350</u>	-	<u>266,390</u>
Total Capital Assets, Being Depreciated	<u>7,230,954</u>	<u>313,665</u>	-	<u>7,544,619</u>
Accumulated Depreciation				
Land Improvements	-	6,106	-	6,106
Building	175,523	179,666	-	355,189
Equipment	<u>100,185</u>	<u>17,990</u>	-	<u>118,175</u>
Total Depreciation	<u>275,708</u>	<u>203,762</u>	-	<u>479,470</u>
Total Capital Assets, Being Depreciated	<u>6,955,246</u>	<u>109,903</u>	-	<u>7,065,149</u>
Net Capital Assets	<u>\$ 8,213,357</u>	<u>\$ 109,903</u>	<u>\$ -</u>	<u>\$ 8,323,260</u>

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

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2017, were \$217,699. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: LONG TERM DEBT

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2017:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2017</u>	Due In <u>One Year</u>
USDA Loan Payable	\$ 6,383,296	\$ -	\$ 103,211	\$ 6,280,085	\$ 97,706
USDA Loan Payable	<u>699,150</u>	<u>-</u>	<u>19,380</u>	<u>679,770</u>	<u>10,661</u>
Total	<u>\$ 7,082,446</u>	<u>\$ -</u>	<u>\$ 122,591</u>	<u>\$ 6,959,855</u>	<u>\$ 108,367</u>

USDA Loan Payable

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

In April of 2016, the Foundation entered into an additional loan agreement with USDA in the amount of \$700,000 to construct two additional classrooms. The loan carries an interest rate of 2.875%. Monthly principal and interest payments in the amount of \$2,527 are due through June 2054.

In addition to the monthly principal and interest payments, the Foundation is also required to deposit an amount equal to one tenth of the monthly debt service amount into a reserve account as determined by the USDA loan covenants. For the year ended June 30, 2017, the balance of the reserve account is \$39,441. This amount is reported as restricted cash on the Foundation's balance sheet.

Lease Agreement

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

For the year ended June 30, 2017, the School paid \$340,286 in rent payments to the Foundation under the terms of the lease agreement.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: LONG TERM DEBT (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 108,367	\$ 199,205	\$ 307,572
2019	111,524	196,048	307,572
2020	114,772	192,800	307,572
2021	118,116	189,456	307,572
2022	121,557	186,015	307,572
2023-2027	663,012	874,848	1,537,860
2028-2032	765,379	772,481	1,537,860
2033-2037	883,550	654,310	1,537,860
2038-2042	1,019,968	517,892	1,537,860
2043-2047	1,177,448	360,412	1,537,860
2048-2052	1,359,243	178,617	1,537,860
2053-2054	<u>516,919</u>	<u>14,506</u>	<u>531,425</u>
Total	<u>\$ 6,959,855</u>	<u>\$ 4,336,590</u>	<u>\$ 11,296,445</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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.

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.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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, 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. 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.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2016	For the 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 SCHDTF¹	18.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$223,290 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 \$6,492,859 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's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

At December 31, 2016, the School proportion was 0.02181 percent, which was a decrease of 0.00196 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017 the School recognized pension expense of \$1,342,352. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 81,171	\$ 57
Changes of assumptions or other inputs	\$2,106,797	\$ 29,279
Net difference between projected and actual earnings on pension plan investments	\$ 217,108	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 125,001	\$ 239,512
Contributions subsequent to the measurement date	\$ 114,517	N/A
Total	\$2,644,594	\$ 268,848

\$114,517 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. 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,	
2018	\$1,002,380
2019	\$ 905,291
2020	\$ 411,721
2021	\$ (57,563)
2022	\$ (600)

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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 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
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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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:

- **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.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

The long-term expected return on 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.

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:

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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%.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

- 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 and effective as of the measurement date, 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

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

System, was applied to periods on and after 2041 to develop the discount rate. 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	\$8,164,561	\$ 6,492,859	\$5,131,318

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.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016, and 2015, the School contributions to the HCTF were \$11,738, \$9,914 and \$7,641, respectively, equal to their required contributions for each year.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

ROSS MONTESSORI SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2017, the reserve of \$72,000 was recorded as a reservation of fund balance in the General Fund.

NOTE 9: **DEFICIT NET POSITION**

At June 30, 2017, the net position of the governmental activities is in a deficit position of \$1,796,347 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

ROSS MONTESSORI SCHOOL

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 2,036,257	\$ 2,036,257	\$ 2,082,475	\$ 46,218	\$ 1,790,946
Tuition and Fees	309,245	309,245	282,767	(26,478)	266,848
Grants and Contributions	65,000	100,000	57,099	(42,901)	32,968
Other	47,800	47,800	27,102	(20,698)	38,484
State Sources					
Grants and Donations	116,832	116,832	148,682	31,850	124,743
Federal Sources					
Grants and Donations	18,000	18,000	28,228	10,228	18,439
TOTAL REVENUES	<u>2,593,134</u>	<u>2,628,134</u>	<u>2,626,353</u>	<u>(1,781)</u>	<u>2,272,428</u>
EXPENDITURES					
Salaries	1,258,251	1,293,451	1,269,582	23,869	1,100,580
Employee Benefits	435,390	447,344	361,912	85,432	354,318
Purchased Services	704,490	711,197	606,181	105,016	555,654
Supplies and Materials	170,000	170,000	155,994	14,006	147,790
Property	10,000	294	12,734	(12,440)	1,807
Other	5,000	5,000	11,508	(6,508)	6,536
TOTAL EXPENDITURES	<u>2,583,131</u>	<u>2,627,286</u>	<u>2,417,911</u>	<u>209,375</u>	<u>2,166,685</u>
NET CHANGE IN FUND BALANCE					
	10,003	848	208,442	207,594	105,743
FUND BALANCE, Beginning	<u>374,136</u>	<u>374,136</u>	<u>461,040</u>	<u>86,904</u>	<u>355,297</u>
FUND BALANCE, Ending	<u>\$ 384,139</u>	<u>\$ 374,984</u>	<u>\$ 669,482</u>	<u>\$ 294,498</u>	<u>\$ 461,040</u>

See the accompanying independent auditors' report.

ROSS MONTESSORI SCHOOL

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.022%	0.023%	0.024%	0.022%
School's proportionate share of the Net Pension Liability	\$ 2,783,368	\$ 3,142,781	\$ 3,634,503	\$ 6,492,859
School's covered-employee payroll	\$ 970,919	\$ 879,705	\$ 1,035,619	\$ 1,062,239
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	286.7%	357.3%	350.9%	611.2%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%

See the accompanying independent auditors' report.

ROSS MONTESSORI SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contributions	\$ 152,972	\$ 190,626	\$ 182,315	\$ 223,290
Contributions in relation to the Statutorily required contributions	<u>152,972</u>	<u>190,626</u>	<u>182,315</u>	<u>223,290</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 898,979	\$ 1,063,084	\$ 971,997	\$ 1,150,766
Contributions as a percentage of covered-employee payroll	17.02%	17.93%	18.76%	19.40%

See the accompanying independent auditors' report.