

SALIDA MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2017



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SALIDA MONTESSORI CHARTER SCHOOL

June 30, 2017

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TABLE OF CONTENTS

PAGE

Independent Auditors' Report	
Management's Discussion and Analysis	i - iv
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Notes to Financial Statements	5 - 14
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability and Contributions	15
Budgetary Comparison Schedule - General Fund	16
Notes to Required Supplementary Information	17



Board of Directors
Salida Montessori Charter School
Salida, Colorado

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

October 13, 2017

Salida Montessori Charter School

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2017

As management of Salida Montessori Charter School (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The year ending June 30, 2017, was the second year of operations for the School. As of June 30, 2017, the net position was (\$951,705). The negative net position is due to the reporting of the School's proportionate share of the Public Employees Retirement Association (PERA) unfunded pension liability. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Per Pupil Revenue (PPR) for the year was \$567,853. The General Fund ending fund balance increased \$43,548 to \$202,073, or 27.5%.

Overview of Basic Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The statement of net position presents information on all the School's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the assets/deferred outflows and liabilities/deferred inflows being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial condition of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term financing requirements. The School maintains one governmental fund, its General Fund.

The School adopts an annual budget. Budgetary comparisons have been provided for the General Fund (page 16) in the required supplementary information to demonstrate compliance with the budget.

Salida Montessori Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2017

Notes to Basic Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial condition. As of June 30, 2017, the School's liabilities and deferred inflows exceeded assets and deferred outflows by \$951,705. \$26,900 of this total is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy general operating expenses of the School. The unrestricted net position balance was (\$1,016,163) reflecting a further deterioration of \$841,783 over the prior year.

Net position as of June 30, 2017 is as follows:

	June 30, 2017	June 30, 2016
Assets		
Cash and Investments	\$ 183,757	\$ 131,068
Accounts Receivable	8,728	7,401
Grants Receivable	95,307	96,250
Prepaid Expenses	15,764	17,142
Capital Assets (Net)	37,558	8,598
Total Assets	341,114	260,459
Deferred Outflows – Pensions	1,912,430	927,111
Liabilities		
Accounts Payable and Accrued Liabilities	25,508	21,649
Accrued Salaries and Benefits	37,173	32,587
Unearned Revenue	38,802	39,100
Noncurrent Liability – Net Pension Liability	3,093,105	1,214,355
Total Liabilities	3,194,588	1,307,691
Deferred Inflows – Pensions	10,661	17,161
Net Position		
Net Investment in Capital Assets	37,558	8,598
Restricted for Emergencies	26,900	28,500
Unrestricted	(1,016,163)	(174,380)
Total Net Position	\$ (951,705)	\$ (137,282)

Salida Montessori Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2017

Change in net position for the year ended June 30, 2017 is as follows:

	June 30, 2017	June 30, 2016
Revenues		
Program Revenues		
Operating Grants and Contributions	\$ 64,268	\$ 142,962
Charges for Services	<u>244,856</u>	<u>224,048</u>
Total Program Revenues	<u>309,124</u>	<u>367,010</u>
General Revenues		
Per Pupil Revenue	567,853	492,424
At Risk Supplemental Aid	4,109	3,106
Additional At Risk Funding	211	211
Capital Construction	21,879	17,888
Unrestricted Grants and Contributions	300,189	199,046
Other	<u>4,095</u>	<u>457</u>
Total General Revenues	<u>898,336</u>	<u>713,132</u>
Total Revenues	<u>1,207,460</u>	<u>1,080,142</u>
Expenses		
Instruction	1,537,700	924,486
Supporting Services	<u>484,183</u>	<u>293,063</u>
Total Expenses	<u>2,021,883</u>	<u>1,217,549</u>
Decrease in Net Position	(814,423)	(137,407)
Net Position, Beginning of Year	<u>(137,282)</u>	<u>125</u>
Net Position, End of Year	<u>\$ (951,705)</u>	<u>\$ (137,282)</u>

Financial Analysis of the School's Fund

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. The General Fund began the year with a positive fund balance of \$158,525. As a result of operating within its budget, the General Fund ending fund balance increased to \$202,073 at year-end. Seventy nine percent of the General Fund ending fund balance is unassigned.

Salida Montessori Charter School

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2017

General Fund Budgetary Highlights

The School budgeted General Fund expenditures of \$1,245,000 for the year ended June 30, 2017. Actual expenditures were \$1,163,912. The positive variance of \$81,088 was planned and partly due to the lower than projected instructional salary and benefit expense.

A budget amendment was needed for the year as the School received grant funding intended for the prior year which rolled into the current year.

Capital Assets and Debt Administration

The School leases its school facilities under two operating lease agreements that were signed in April 2015. The lease options were again extended one year in July of 2017. The School had capital assets of \$40,572 and accumulated depreciation of \$3,014 at June 30, 2017. Capital additions for the year were \$31,677.

The School had no outstanding debt at June 30, 2017.

Economic Factors, Next Year's Budget, Student Counts

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) was 69.2 for FY16 and 75.8 for FY17. The FPC used to create the FY18 budget was 86.8 or a 14.5% increase over the prior year.

The State of Colorado continues to chip away at the large budget stabilization factor (shortfall in the School Finance Act - \$828 Million). The Per Pupil Revenue Rate (PPRR) for FY18 will grow approximately 3.2%. Additional support in the form of capital construction funding, grants and private contributions will continue and allow the School to drive more resources into the classroom. As the Colorado economy continues to improve as evidenced by the 2.4% unemployment rate and sales tax growth approaching double digits, it is likely we will see a similar PPRR increase of 3 to 4% in FY19.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

SALIDA MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 183,757
Accounts Receivable	8,728
Grants Receivable	95,307
Prepaid Expenses	15,764
Capital Assets, Net of Accumulated Depreciation	<u>37,558</u>
 TOTAL ASSETS	 <u>341,114</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>1,912,430</u>
LIABILITIES	
Accounts Payable	22,013
Accrued Liabilities	3,495
Accrued Salaries and Benefits	37,173
Unearned Revenues	38,802
Noncurrent Liabilities	
Net Pension Liability	<u>3,093,105</u>
 TOTAL LIABILITIES	 <u>3,194,588</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>10,661</u>
NET POSITION	
Net Investment in Capital Assets	37,558
Restricted for Emergencies	26,900
Unrestricted	<u>(1,016,163)</u>
 TOTAL NET POSITION	 <u>\$ (951,705)</u>

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

SALIDA MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 1,537,700	\$ 242,437	\$ 64,268	\$ (1,230,995)
Supporting Services	484,183	2,419	-	(481,764)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,021,883	\$ 244,856	\$ 64,268	(1,712,759)
GENERAL REVENUES				
Per Pupil Revenue				567,853
At-Risk Supplemental Aid				4,109
Additional At-Risk Funding				211
Capital Construction				21,879
Grants and Contributions not Restricted to Specific Programs				300,189
Investment Income				39
Miscellaneous				4,056
TOTAL GENERAL REVENUES				898,336
CHANGE IN NET POSITION				(814,423)
NET POSITION, Beginning				(137,282)
NET POSITION, Ending				\$ (951,705)

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

SALIDA MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

	GENERAL
ASSETS	
Cash	\$ 183,757
Accounts Receivable	8,728
Grants Receivable	95,307
Prepaid Expenditures	15,764
TOTAL ASSETS	\$ 303,556
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 22,013
Accrued Liabilities	3,495
Accrued Salaries and Benefits	37,173
Unearned Revenues	38,802
TOTAL LIABILITIES	101,483
FUND BALANCE	
Nonspendable Prepaid Expenditures	15,764
Restricted for Emergencies	26,900
Unrestricted, Unassigned	159,409
TOTAL FUND BALANCE	202,073
TOTAL LIABILITIES AND FUND BALANCE	\$ 303,556
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 202,073
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	37,558
Long-term liabilities and related items, including net pension liability (\$3,093,105), pension-related deferred outflows of resources \$1,912,430, and pension-related deferred inflows of resources (\$10,661), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(1,191,336)
Total Net Position of Governmental Activities	\$ (951,705)

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

SALIDA MONTESSORI CHARTER SCHOOL

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

	GENERAL
REVENUES	
Local Sources	\$ 823,885
State Sources	63,619
Federal Sources	319,956
TOTAL REVENUES	1,207,460
EXPENDITURES	
Instruction	823,015
Supporting Services	340,897
TOTAL EXPENDITURES	1,163,912
NET CHANGE IN FUND BALANCE	43,548
FUND BALANCE, Beginning	158,525
FUND BALANCE, Ending	\$ 202,073

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

Net Change in Fund Balance of the Governmental Fund	\$ 43,548
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$31,677 exceeded depreciation expense (\$2,717) in the current year.	28,960
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$1,878,750), pension-related deferred outflows of resources \$985,319, and pension-related deferred inflows of resources \$6,500 in the current year.	(886,931)
Change in Net Position of Governmental Activities	\$ (814,423)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

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

The School reports the following major governmental fund:

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

Assets, Liabilities and Net Position/Fund Balance

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

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

Capital Assets - Capital assets are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation.

Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Equipment	5 - 10 years
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Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

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

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

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned and unassigned balances.

Risk Management

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

NOTE 2: CASH AND INVESTMENTS**Deposits**

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

SALIDA MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

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

Credit Risk - State statutes limit certain investments to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities.

The School had no investments at June 30, 2017.

NOTE 3: CAPITAL ASSETS

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

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
Governmental Activities				
Capital Assets, Being Depreciation				
Equipment	\$ 8,895	\$ 31,677	\$ -	\$ 40,572
Accumulated Depreciation	(297)	(2,717)	-	(3,014)
Governmental Activities Capital Assets, Net	\$ 8,598	\$ 28,960	\$ -	\$ 37,558

Depreciation expense of the governmental activities was charged to functions/programs as follows.

Instruction	\$ 391
Supporting Services	2,326
Total	\$ 2,717

NOTE 4: DEFINED BENEFIT PENSION PLAN**General Information**

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 5). The School's contributions to the SDTF for the year ended June 30, 2017, were \$98,262, equal to the required contributions.

SALIDA MONTESSORI CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2017, the School reported a net pension liability of \$3,093,105, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at 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 SDTF for the calendar year ended December 31, 2016, relative to the contributions of all participating employers. At December 31, 2016, the School's proportion was 0.0103886564%, which was an increase of 0.0024487348% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$979,673. 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>
Differences between expected and actual experience	\$ 35,597	\$ -
Changes of assumptions and other inputs	1,003,648	10,661
Net difference between projected and actual earnings on plan investments	67,647	-
Changes in proportion	751,435	-
Contributions subsequent to the measurement date	<u>54,103</u>	<u>-</u>
Total	<u>\$ 1,912,430</u>	<u>\$ 10,661</u>

School contributions subsequent to the measurement date of \$54,103 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2018	\$ 842,061
2019	735,785
2020	268,788
2021	<u>1,032</u>
Total	<u>\$ 1,847,666</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Actuarial Assumptions - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

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 governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. 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 plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

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%	

Discount Rate - The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.26%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

	1% Decrease <u>(4.26%)</u>	Current Discount Rate <u>(5.26%)</u>	1% Increase <u>(6.26%)</u>
Proportionate share of the net pension liability	<u>\$ 3,889,480</u>	<u>\$ 3,093,105</u>	<u>\$ 2,444,486</u>

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

NOTE 5: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2017 and 2016, was \$5,165 and \$4,005, respectively, equal to the required amounts for each year.

NOTE 6: COMMITMENTS AND CONTINGENCIES**Claims and Judgements**

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

NOTE 6: COMMITMENTS AND CONTINGENCIES (Continued)

Tabor Amendment

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$26,900.

Operating Leases

In July, 2016, the School entered into a one-year extension agreement to lease educational facilities. Monthly lease payments of \$2,000 commenced in August, 2016. In July, 2017, the School approved a similar agreement through July, 2018, with an option to extend the lease for an additional year. During the year ended June 30, 2017, the School paid \$24,000 under these agreements.

In addition, in July 2016, the School extended its agreement to lease a second location, commencing July 1, 2016. Monthly lease payments of \$2,200, plus utilities, were required by the agreement. In July, 2017, the School extended this agreement for an additional year, including monthly lease payments of \$2,200. The School may extend the agreement for an additional year. During the year ended June 30, 2017, the School paid \$26,400 under this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

SALIDA MONTESSORI CHARTER SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2017

	12/31/16	12/31/15
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
School's Proportion of the Net Pension Liability	0.0103886564%	0.0079399216%
School's Proportionate Share of the Net Pension Liability	\$ 3,093,105	\$ 1,214,355
School's Covered Payroll	\$ 466,261	\$ 173,010
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	702%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%
	6/30/17	6/30/16
SCHOOL CONTRIBUTIONS		
Statutorily Required Contribution	\$ 93,097	\$ 69,802
Contributions in Relation to the Statutorily Required Contribution	(93,097)	(69,802)
Contribution Deficiency (Excess)	\$ -	\$ -
School's Covered Payroll	\$ 506,345	\$ 392,638
Contributions as a Percentage of Covered Payroll	18.39%	17.78%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

SALIDA MONTESSORI CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 551,149	\$ 570,000	\$ 567,853	\$ (2,147)
Tuition	196,206	204,000	195,052	(8,948)
Student Activities	29,473	42,500	47,385	4,885
Food Service Fees	-	4,000	2,419	(1,581)
Contributions	25,000	5,000	5,407	407
Grants	-	6,500	1,674	(4,826)
Investment Income	-	35	39	4
Miscellaneous	9,784	21,102	4,056	(17,046)
State Sources				
At-Risk Supplemental Aid	3,317	3,145	4,109	964
Additional At-Risk Funding	-	200	211	11
Capital Construction	21,224	22,000	21,879	(121)
Grants	13,235	37,790	37,420	(370)
Federal Sources				
Grants	256,853	328,728	319,956	(8,772)
TOTAL REVENUES	<u>1,106,241</u>	<u>1,245,000</u>	<u>1,207,460</u>	<u>(37,540)</u>
EXPENDITURES				
Instruction				
Salaries	413,495	459,473	433,292	26,181
Employee Benefits	119,820	128,036	118,156	9,880
Purchased Professional Services	7,667	12,771	2,534	10,237
Other Purchased Services	1,776	12,776	18,078	(5,302)
Supplies and Materials	55,670	127,115	131,414	(4,299)
Property	138,644	130,385	119,304	11,081
Other	9,000	21,097	237	20,860
Total Instruction	<u>746,072</u>	<u>891,653</u>	<u>823,015</u>	<u>68,638</u>
Supporting Services				
Salaries	76,801	76,801	87,598	(10,797)
Employee Benefits	22,028	22,028	27,370	(5,342)
Purchased Professional Services	67,807	95,233	89,517	5,716
Purchased Property Services	55,657	61,219	58,580	2,639
Other Purchased Services	76,794	64,369	55,458	8,911
Supplies and Materials	26,378	27,494	18,071	9,423
Other	3,300	3,300	4,303	(1,003)
Total Supporting Services	<u>328,765</u>	<u>350,444</u>	<u>340,897</u>	<u>9,547</u>
Reserves	<u>31,404</u>	<u>2,903</u>	<u>-</u>	<u>2,903</u>
TOTAL EXPENDITURES	<u>1,106,241</u>	<u>1,245,000</u>	<u>1,163,912</u>	<u>81,088</u>
NET CHANGE IN FUND BALANCE	-	-	43,548	43,548
FUND BALANCE, Beginning	<u>115,344</u>	<u>158,525</u>	<u>158,525</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 115,344</u>	<u>\$ 158,525</u>	<u>\$ 202,073</u>	<u>\$ 43,548</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

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

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

Changes in Assumptions and Other Inputs

For the year ended June 30, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All budget appropriations lapse at fiscal year end.