

MOUNTAIN MIDDLE SCHOOL

BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
JUNE 30, 2017



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MOUNTAIN MIDDLE SCHOOL MANAGEMENT DISCUSSION AND ANALYSIS

Perspective on Past Fiscal Year

The Mountain Middle School (MMS) Head of School is very pleased with the diligence and thoroughness of financial management shown by the Business Manager over the past fiscal year. As a result, the June 30, 2017 Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance reports a net change in Fund balance of \$1,675. The increase is attributed to the use of funds in connection with capital improvements conducted on the existing MMS facility, acquisition of mill levy funds, and sound enrollment numbers.

Financial Analysis of Past Fiscal Year

The overall increase in Fund balance from \$274,770 in 2016 to \$276,445 in 2017, as a result of mill levy funds and expansion grant acquisition helping the school to complete construction for expansion and hire additional staff. The Fund balance includes Funds restricted for emergencies in the amount of \$47,612, which exceeds the amount required by the State of Colorado.

Mountain Foundation for Education, a nonprofit corporation, is considered to be financially accountable to the School. The purpose of MFE is to hold title to property and facilitate the acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property to be leased to MMS. MFE is considered to be part of MMS for financial reporting purposes because its resources are entirely for the direct benefit of MMS and is blended into MMS's financial statements as a proprietary fund. MFE ended the year with a cash balance of \$34,224.

The Board believes MMS should maintain a Fund balance equal to 15% of annual operating expenses; the unassigned Fund balance of \$276,445 achieves this goal.

Perspective on Coming Fiscal Year

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

1. Per Pupil Revenue has been increased by the State of Colorado for the coming fiscal year.

2. Mountain Middle School is operating at full enrollment (248 students) with wait lists in all five grades plus additional students in our newly added homeschool program, and it is anticipated that we will maximize per pupil revenue allocated by the State going into the October enrollment count day.
3. Mountain Middle School has two more years on the federal expansion grant for our new 4th and 5th grades. This grant will continue to equate to \$90,000 per year for the next two years totaling an additional \$180,000.
4. Mountain Middle School has partnered with School District 9-R and Animas High School on a mill levy that was approved last year. This mill levy is estimated at \$350 per student per year and will not sunset. This equates to an estimated \$86,800 per year in additional revenue.

Improvements Planned for the Coming Year

1. Acquire 12-passenger vans for school transportation.
2. Continue to renovate the older parts of our facility in order to ensure a high quality learning environment.

Conclusion

The MMS administration has continued to effectively and efficiently manage the school's finances while leveraging the school's academic performance to expand our vision and mission to reach more students in Durango. Our financial statements provide clear evidence of the sustainability of our financial operations and our consistent academic achievement provides a high demand for enrollment. Mountain Middle School has gone to lottery seven years with a fully enrolled new 4th and 5th grade indicates that we will go to lottery for a 8th year with demand far outnumbering the number of available seats. The School's Charter Contract was unanimously approved by the Charter School Institute's board of directors through June 30th, 2021. The school has successfully partnered with the local school district to pass a mill levy ballot measure. This is the first time in the history of Colorado that a CSI charter school has passed a mill levy. The school has successfully partnered with the City of Durango on a number of improvement projects for our school and neighborhood with a stipulation agreement. The school has become the region's first Net zero school producing more electricity with its solar array than it consumes setting an example for all schools. The school has partnered with Fort Lewis College with a class on progressive education being taught at Mountain Middle School. The college students are placed in our classes to learn progressive educational practices. We look forward to many years of high performance and partnerships to provide the best experience for our students and community.



Shane Voss
Head of School
Mountain Middle School

Mountain Middle School

GOVERNMENTAL FUND BALANCE SHEETS JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
ASSETS:			
Cash	\$ 265,078	\$ 298,608	\$ (33,530)
Accounts receivable	45,614	22,469	23,145
Prepaid expenses	<u>14,973</u>	<u>6,671</u>	<u>8,302</u>
Total Assets	<u>325,665</u>	<u>327,748</u>	<u>(2,083)</u>
LIABILITIES:			
Accounts payable	\$ 7,526	\$ 21,277	\$ (13,751)
Accrued expenses	8,723	6,898	1,825
Deferred revenues	<u>32,971</u>	<u>24,803</u>	<u>8,168</u>
Total Liabilities	<u>49,220</u>	<u>52,978</u>	<u>(3,758)</u>
FUND BALANCE:			
Nonspendable	14,973	6,671	8,302
Restricted for emergencies	47,612	41,707	5,905
Restricted	-	9,813	(9,813)
Unassigned	<u>213,860</u>	<u>216,579</u>	<u>(2,719)</u>
Total Fund Balance	<u>276,445</u>	<u>274,770</u>	<u>1,675</u>
Total Liabilities and Fund Balance	<u>\$ 325,665</u>	<u>\$ 327,748</u>	<u>\$ (2,083)</u>

GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
REVENUES:			
Local sources	\$ 133,499	\$ 128,439	\$ 5,060
State sources	1,599,944	1,348,953	250,991
Federal sources	<u>-</u>	<u>30,094</u>	<u>(30,094)</u>
Total Revenues	<u>1,733,443</u>	<u>1,507,486</u>	<u>225,957</u>
EXPENDITURES:			
Instructional	877,368	762,814	114,554
Supporting services	<u>854,400</u>	<u>914,332</u>	<u>(59,932)</u>
Total Expenditures	1,731,768	1,677,146	54,622
Net Change in Fund Balance	1,675	(169,660)	171,335
Beginning of the year	<u>274,770</u>	<u>444,430</u>	<u>(169,660)</u>
End of the year	<u>\$ 276,445</u>	<u>\$ 274,770</u>	<u>\$ 1,675</u>

Mountain Middle School

STATEMENTS OF NET POSITION JUNE 30, 2017 AND 2016

	2017	2016	Variance
ASSETS:			
Cash	\$ 265,078	\$ 298,608	\$ (33,530)
Accounts receivable	45,613	22,468	23,145
Prepaid expenses	14,973	6,671	8,302
Capital assets, net of accumulated depreciation	<u>121,861</u>	<u>73,845</u>	<u>48,016</u>
Total Assets	<u>447,525</u>	<u>401,592</u>	<u>45,933</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Difference between projected and actual earnings on pension plan	<u>1,999,565</u>	<u>358,856</u>	<u>1,640,709</u>
LIABILITIES:			
Accounts payable	7,525	21,276	(13,751)
Accrued expenses	8,723	6,898	1,825
Deferred revenues	32,971	24,803	8,168
Net Pension Liability	<u>4,890,673</u>	<u>2,395,993</u>	<u>2,494,680</u>
Total Liabilities	<u>4,939,892</u>	<u>2,448,970</u>	<u>2,490,922</u>
DEFERRED INTFLOWS OF RESOURCES:			
Difference between expected and actual experience on pension plan	<u>34,102</u>	<u>63,113</u>	<u>(29,011)</u>
NET POSITION:			
Investment in capital assets	121,861	73,845	48,016
Restricted for emergencies	47,612	41,707	5,905
Restricted	-	9,813	(9,813)
Unrestricted	<u>(2,696,377)</u>	<u>(1,877,000)</u>	<u>(819,377)</u>
Total Net Position (Deficit)	<u>\$ (2,526,904)</u>	<u>\$ (1,751,635)</u>	<u>\$ (775,269)</u>

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016	Variance
EXPENDITURES/EXPENSES:			
Governmental Activities:			
Instructional	\$ 1,452,201	\$ 841,717	\$ 610,484
Supporting services	<u>1,056,512</u>	<u>953,311</u>	<u>103,201</u>
Total expenditures	<u>2,508,713</u>	<u>1,795,028</u>	<u>713,685</u>
PROGRAM REVENUES:			
Operating grants and contributions	145,432	82,009	63,423
Capital grants and contributions	<u>52,200</u>	<u>46,528</u>	<u>5,672</u>
Net program expense	2,311,081	(1,666,491)	644,590
GENERAL REVENUES:			
Per pupil revenue	1,358,600	1,276,773	81,827
Other income	70,166	480	69,686
Student fees	107,023	101,669	5,354
Interest income	<u>23</u>	<u>27</u>	<u>(4)</u>
Total general revenues	<u>1,535,812</u>	<u>1,378,949</u>	<u>156,863</u>
Change in net assets	(775,269)	(287,542)	(487,727)
NET POSITION:			
Beginning of the year	<u>(1,751,635)</u>	<u>(1,464,093)</u>	<u>287,542</u>
End of the year	<u>\$ (2,526,904)</u>	<u>\$ (1,751,635)</u>	<u>\$ 775,269</u>

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mountain Middle School
Durango, Colorado

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Mountain Middle School, as of June 30, 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 required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

May Jackson Hendrick, LLC

Parker, Colorado
September 20, 2017

BASIC FINANCIAL STATEMENTS

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash	\$ 265,078	\$ 34,224	\$ 299,302
Accounts receivable	45,613	-	45,613
Prepaid expenses	14,973	11,064	26,037
Capital assets, net of accumulated depreciation	121,861	2,679,140	2,801,001
Total Assets	<u>447,525</u>	<u>2,724,428</u>	<u>3,171,953</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Difference between projected and actual investment earnings on pension plan	1,999,565	-	1,999,565
Total Deferred Outflows of Resources	<u>1,999,565</u>	<u>-</u>	<u>1,999,565</u>
LIABILITIES:			
Accounts payable	7,525	-	7,525
Accrued expenses	8,723	-	8,723
Unearned revenues	32,971	8,500	41,471
Notes payable, current	-	40,427	40,427
Noncurrent liabilities:			
Due in more than one year:			
Notes payable	-	1,743,860	1,743,860
Net pension liability	4,890,673	-	4,890,673
Total Liabilities	<u>4,939,892</u>	<u>1,792,787</u>	<u>6,732,679</u>
DEFERRED INFLOWS OF RESOURCES:			
Difference between expected and actual experience on pension plan	34,102	-	34,102
Total Deferred Inflows of Resources	<u>34,102</u>	<u>-</u>	<u>34,102</u>
NET POSITION (DEFICIT):			
Investment in capital assets, net of related debt	121,861	894,853	1,016,714
Restricted for TABOR	47,612	-	47,612
Unrestricted	(2,696,378)	36,788	(2,659,590)
Total Net Position (Deficit)	<u>\$ (2,526,905)</u>	<u>\$ 931,641</u>	<u>\$ (1,595,264)</u>

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

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	PROGRAM REVENUES				NET (EXPENSES) REVENUE AND CHANGE IN NET POSITION (DEFICIT)		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities:							
Instructional	\$ 1,446,157	\$ 107,023	\$ -	\$ -	\$ (1,339,134)	\$ -	\$ (1,339,134)
Supporting services	<u>804,217</u>	<u>-</u>	<u>145,432</u>	<u>52,200</u>	<u>(606,585)</u>	<u>-</u>	<u>(606,585)</u>
Total Governmental Activities	<u>2,250,374</u>	<u>107,023</u>	<u>145,432</u>	<u>52,200</u>	<u>(1,945,719)</u>	<u>-</u>	<u>(1,945,719)</u>
Business-type Activities:							
Building corporation	<u>189,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,309</u>	<u>189,309</u>
Total Business-type Activities	<u>189,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(189,309)</u>	<u>(189,309)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,439,683</u>	<u>\$ 107,023</u>	<u>\$ 145,432</u>	<u>\$ 52,200</u>	<u>(1,945,719)</u>	<u>(189,309)</u>	<u>(2,135,028)</u>
GENERAL REVENUES:							
					1,358,600	-	1,358,600
					65,013	-	65,013
					3,399	-	3,399
					23	-	23
					1,754	-	1,754
					<u>(258,340)</u>	<u>258,340</u>	<u>-</u>
					<u>1,170,449</u>	<u>258,340</u>	<u>1,428,789</u>
					(775,270)	69,031	(706,239)
					<u>(1,751,635)</u>	<u>862,610</u>	<u>(889,025)</u>
					<u>\$ (2,526,905)</u>	<u>\$ 931,641</u>	<u>\$ (1,595,264)</u>

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

MOUNTAIN MIDDLE SCHOOL
BALANCE SHEET -
GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
ASSETS:	
Cash	\$ 265,078
Accounts receivable	45,614
Prepaid expenses	<u>14,973</u>
Total Assets	<u>\$ 325,665</u>
LIABILITIES:	
Accounts payable	\$ 7,526
Accrued expenses	8,723
Unearned revenues	<u>32,971</u>
Total Liabilities	<u>49,220</u>
FUND BALANCE:	
Nonspendable	14,973
Restricted for TABOR	47,612
Unassigned	<u>213,860</u>
Total Fund Balance	<u>276,445</u>
Total Liabilities and Fund Balance	<u>\$ 325,665</u>
Amounts reported for Governmental Activities in the Statement of Net Position (Deficit) are different because:	
Fund Balance - Governmental Fund	\$ 276,445
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.	121,861
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.	1,999,565
Long-term liabilities, including net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,890,673)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.	<u>(34,102)</u>
Net Position (Deficit) - Governmental Activities	<u>\$ (2,526,904)</u>

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

	General Fund
REVENUES:	
Local sources	\$ 133,499
State and Federal sources	1,599,944
Total Revenues	1,733,443
EXPENDITURES:	
Instructional	871,323
Supporting services	860,445
Total expenditures	1,731,768
Net Change in Fund Balance	1,675
FUND BALANCE, Beginning	274,770
FUND BALANCE, Ending	\$ 276,445

MOUNTAIN MIDDLE SCHOOL
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCE -
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance - Governmental Fund	\$	1,675
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current year.</p>		
		48,016
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		<u>(824,960)</u>
Change in Net Position - Governmental Activities	\$	<u>(775,269)</u>

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF NET POSITION -
PROPRIETARY FUND TYPE
JUNE 30, 2017

	<u>Building Corporation</u>
ASSETS:	
Current Assets	
Cash	\$ 34,225
Prepaid expenses	<u>11,064</u>
Total Current Assets	<u>45,289</u>
Noncurrent Assets	
Capital assets, net of accumulated depreciation	<u>2,679,140</u>
Total Noncurrent Assets	<u>2,679,140</u>
Total Assets	<u>2,724,429</u>
LIABILITIES:	
Current Liabilities	
Deferred revenue	8,500
Notes payable, current	<u>40,427</u>
Total Current Liabilities	48,927
Long-Term Liabilities	
Notes payable	<u>1,743,860</u>
Total Liabilities	<u>1,792,787</u>
NET POSITION:	
Investment in capital assets, net of related debt	894,853
Unrestricted	<u>36,789</u>
Total Net Position	<u>\$ 931,642</u>

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION - PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2017

	Building Corporation
OPERATING REVENUES:	
Contributions	\$ 160,000
Rental income	98,340
Total Operating Revenues	258,340
OPERATING EXPENSES:	
Loss on disposal of fixed asset	92,211
Interest	51,995
Depreciation	30,986
Management and general expenses	9,815
Property taxes	4,058
Building expenses	243
Total Operating Expenses	189,308
Operating Income	69,032
NET POSITION, Beginning	862,610
NET POSITION, Ending	\$ 931,642

MOUNTAIN MIDDLE SCHOOL
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2017

	Building Corporation
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received	\$ 266,840
Operating expenses	(322,163)
Net Cash Provided by Operating Activities	(55,323)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(1,711,858)
Net Cash Used by Investing Activities	(1,711,858)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Acquisition of loans	1,789,336
Principal payments on loans	(5,049)
Net Cash Provided by Investing Activities	1,784,287
Net Change in Cash	17,106
Cash, Beginning	17,119
Cash, Ending	\$ 34,225
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Income	\$ 69,032
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	30,986
Increase/Decrease in assets and liabilities:	
Prepaid expenses	(6,177)
Accounts payable	(157,664)
Deferred revenue	8,500
Net cash provided by operating activities	\$ (55,323)

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

MMS' financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

Financial Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

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

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Basis of Presentation

Government-wide and Fund Financial Statements:

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

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

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

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

The School reports the following major governmental fund:

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

Additionally, the School reports the following major proprietary fund:

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

Measurement Focus and Basis of Accounting

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus:

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

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

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

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

Basis of Accounting

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

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash:

For the purpose of both the government-wide and fund financial statements, cash includes the checking accounts for MMS and MFE.

Accounts Receivable:

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

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

Prepaid Expenses:

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

Capital Assets:

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

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

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unearned Revenues:

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

Pensions:

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

Fund Balance / Net Position (Deficit) Classifications:

Government-wide Statements:

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

Investment in capital assets, net of related debt – This classification includes capital assets net of accumulated depreciation and related debt.

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

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund Statements:

Fund balances are classified in the following categories:

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

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

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

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

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

Use of Estimates

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget and Budgetary Accounting

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

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

NOTE 3 DETAIL NOTES ON TRANSACTIONS/ACCOUNTS

Cash

As of June 30, 2017, the School had the following cash:

Checking	\$ 299,302
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Deposits

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Capital Assets

Capital Assets activity for the year ended June 30, 2017 is as follows:

	Balance			Balance
Governmental Activities	June 30, 2016	Additions	Deletions	June 30, 2017
Capital Assets:				
Leasehold Improvements	\$ 340,455	\$ 21,620	\$ -	\$ 362,075
FFE	36,120	15,308	-	51,428
Land Improvements	<u>3,038</u>	<u>25,469</u>	<u>-</u>	<u>28,507</u>
Total Capital Assets	<u>379,613</u>	<u>62,397</u>	<u>-</u>	<u>442,010</u>
 Accumulated Depreciation:				
Leasehold Improvements	283,685	6,957	-	290,642
FFE	19,308	7,080	-	26,388
Land Improvements	<u>2,775</u>	<u>344</u>	<u>-</u>	<u>3,119</u>
Total Accumulated Depreciation	<u>305,768</u>	<u>14,381</u>	<u>-</u>	<u>320,149</u>
 Net Capital Assets	 <u>\$ 73,845</u>			 <u>\$ 121,861</u>
 <u>Business-type Activities:</u>				
Capital Assets:				
Building	\$ 629,404	\$ 1,515,308	\$ -	\$ 2,144,712
Land Improvements	-	8,280	-	8,280
Land	<u>372,961</u>	<u>188,270</u>	<u>-</u>	<u>561,231</u>
Total Capital Assets	<u>1,002,365</u>	<u>1,711,858</u>	<u>-</u>	<u>2,714,223</u>
 Accumulated Depreciation:				
Building	<u>4,097</u>	<u>30,986</u>	<u>-</u>	<u>35,083</u>
Total Accumulated Depreciation	<u>4,097</u>	<u>30,986</u>	<u>-</u>	<u>35,083</u>
 Net Capital Assets	 <u>\$ 998,268</u>			 <u>\$ 2,679,140</u>

Land improvements capitalized in the Statement of Net Position (Deficit) – Business-type Activities were not completed as of the fiscal year ended June 30, 2017; these assets will be depreciated upon completion in the fiscal year ending June 30, 2018.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Capital Assets (Continued)

Depreciation expense in the Statement of Activities - Governmental Activities was \$7,161 and \$7,220 for the Instructional and Supporting Services, respectively.

Depreciation expense in the Statement of Activities - Business-type Activities was \$30,986.

Unearned Revenues

Unearned revenues reported in the Statement of Net Position (Deficit) – Governmental Activities represents student fees and lunch balances allocated to the next school year. As of June 30, 2017, MMS had the following deferred revenue:

2017 – 2018 Student fees	\$	29,821
2017 – 2018 Student lunch balances		<u>3,150</u>
Total		<u>\$ 32,971</u>

Unearned revenue of \$8,500 reported in the Statement of Net Position (Deficit) – Business-type Activities represents July 2017 rent received in June 2017.

Long-term Debt

Mountain Foundation for Education’s long-term debt at June 30, 2017 consists of the following:

Note payable to Alpine Bank, monthly payments of \$8,550, plus interest at 4.375%. Interest paid on this note was \$49,081 for the year ended June 30, 2017. The loan matures in May 2047 and is secured by the School’s land and materials.	\$	1,627,517
Note payable to Alpine Bank, monthly payments of \$1,229, plus interest a 4.50%. Interest paid on this note was \$2,914 for the year ended June 30, 2017. The loan matures in January 2022 and is secured by the land and materials acquired with the loan.		<u>156,770</u>
		1,784,287
Less amounts due within one year		<u>(40,427)</u>
		<u>\$ 1,743,860</u>

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Long-term Debt (Continued)

The annual maturities of principal payable on all long-term debt are as follows:

Year Ending June 30:	
2018	\$ 40,427
2019	41,702
2020	43,574
2021	45,531
2022	161,380
Thereafter	<u>1,451,673</u>
Total	<u>\$ 1,784,287</u>

NOTE 4 **DEFINED BENEFIT PENSION PLAN**

General Information about the Pension Plan

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

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annualized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefits recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Works (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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

Survivor benefits are determined by several factors, which include the amount of earned service credit, and the qualified survivor(s) who will receive the benefits.

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

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

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and MMS is statutorily committed to pay the contribution to the SCHDTF. Employer contributions recognized by the SCHDTF from MMS were \$141,179 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, MMS reported a liability of \$4,890,673 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. MMS proportion of the net pension liability was based on MMS' contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 4 DEFINED BENEFIT PENSION PLAN (Continued)

At December 31, 2016, MMS' proportion was .0164260590 percent, which was an increase of .0007601352 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, MMS recognized pension expense of \$970,726. At June 30, 2017, MMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,576,230	\$ 22,097
Changes in assumptions or other inputs	8,193	-
Net difference between projected and actual earnings on pension plan investments	235,366	-
Changes in proportion and difference between contributions recognized and proportionate share of contributions	107,525	12,005
Contributions subsequent to the measurement date	72,251	-
Total	\$ 1,999,565	\$ 34,102

\$72,251 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	\$ 103,713
2019	61,786
2020	15,463

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 4 DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions – The total pension liability in the December 31, 2015 actuarial valuation was determined using the following 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

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.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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.

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

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.83%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Bonds	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%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

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 MMS proportionate share of the net pension liability to changes in the discount rate – The following presents the proportionate share of the net pension liability calculated using the discount rate of 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	\$ 6,149,864	\$ 4,890,673	\$ 3,865,107

Pension plan fiduciary net position – Detailed information about the SCHDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 5 **POSTEMPLOYMENT HEALTH CARE BENEFITS**

Health Care Trust Fund

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

Funding Policy – MMS is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for MMS are established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 5 **POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

Health Care Trust Fund

For the years ending December 31, 2016, 2015 and 2014 MMS' contributions to the HCTF were \$7,520, \$6,964, and \$6,580, respectively, equal to their required contributions for each year.

NOTE 6 **CONCENTRATION OF CREDIT RISK**

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

NOTE 7 **RISK OF LOSS**

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

NOTE 8 **COMMITMENTS AND CONTINGENCIES**

Lease Commitments

School Lease Agreement

The School entered into a twelve month lease agreement in July 2016 with Mountain Foundation for Education to lease the school for \$8,195 a month. As a result, occupancy expense for the year ended June 30, 2017 was \$98,340.

The School signed a twelve month lease in April 2017 for the twelve months ending June 2018 with Mountain Foundation for Education to lease the school for \$8,500 a month.

Solar Equipment Lease Agreement

The School entered into a twenty-five year operating lease agreement for a solar system in January 2016. Per the lease agreement, the School shall not incur any costs for the installation, maintenance or repairs associated with the solar equipment. The School has agreed to provide a no-rent, twenty-five year lease of its rooftop, and any other services or systems required for the production of energy by the solar system, provided that the use of any of the School's property shall not cause damages of any kind to that property or interfere with the use of that property by the School or otherwise impact or limit the operations of the School. Additionally, the School has agreed that any and all tax credits or benefits are the property of the lessor; specifically the La Plata Electric Association Renewable Energy Credits.

MOUNTAIN MIDDLE SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Solar Equipment Lease Agreement (Continued)

For the fiscal year ended June 30, 2017, the School made monthly payments of \$870; equal to \$10,440. The future minimum lease obligations are as follows:

Year Ending June 30:	
2018	\$ 10,861
2019	11,154
2020	11,454
2021	11,757
2022	12,073
Thereafter	<u>252,751</u>
Total	<u>\$ 310,050</u>

The School has the option to buy the solar system for the buyout price of \$68,280 in year 2021 or any point thereafter.

Taxpayer's Bill of Rights (TABOR)

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

TABOR also requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. MMS is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2017 there was a \$47,612 reservation of fund balance in the General Fund for TABOR.

Current Vulnerability Due to Certain Concentrations and Uncertainties

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

NOTE 9 **EVALUATION OF SUBSEQUENT EVENTS**

The School has evaluated subsequent events through September 20, 2017, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN MIDDLE SCHOOL
SCHEDULE OF EMPLOYER'S SHARE OF
NET PENSION LIABILITY AND COVERED PAYROLL
YEAR ENDED JUNE 30, 2017

	December 31,			
	2013	2014	2015	2016
School's proportion of net pension liability	0.0156316526%	0.0151341804%	0.0156659238%	0.0164260590%
School's proportionate share of the net pension liability	\$ 1,993,813	\$ 2,051,190	\$ 2,395,992	\$ 4,890,673
School's covered-employee payroll	\$ 630,162	\$ 633,931	\$ 682,717	\$ 737,231
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	316.40%	323.57%	350.95%	663.38%
Plan fiduciary net position as a percentage of the total pension liability	64.10%	62.80%	59.20%	43.10%

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

MOUNTAIN MIDDLE SCHOOL
SCHEDULE OF EMPLOYER'S STATUTORY
PAYROLL CONTRIBUTIONS AND COVERED PAYROLL
YEAR ENDED JUNE 30, 2017

	2013	December 31, 2014	2015	2016
Contractually required contribution	\$ 97,864	\$ 104,168	\$ 125,279	\$ 141,179
Contributions in relation to the contractually required contribution	<u>97,864</u>	<u>104,168</u>	<u>124,079</u>	<u>141,179</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ -</u>
School's covered-employee payroll	630,162	633,931	682,717	737,231
Contributions as a percentage of covered-employee payroll	15.53%	16.43%	18.35%	19.15%

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

MOUNTAIN MIDDLE SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Local sources	\$ 116,096	\$ 133,499	\$ 17,403
State sources	1,513,804	1,493,744	(20,060)
Federal sources	112,765	106,200	(6,565)
Total Revenues	<u>1,742,665</u>	<u>1,733,443</u>	<u>(9,222)</u>
Expenditures:			
Instructional Services:			
Salaries and benefits	713,694	603,148	110,546
Materials, supplies and purchased services	200,859	268,175	(67,316)
Total Instructional Services	<u>914,553</u>	<u>871,323</u>	<u>43,230</u>
Supporting Services:			
Salaries and benefits	345,994	321,641	24,353
Materials, supplies and purchased services	481,516	538,804	(57,288)
Total Supporting Services	<u>827,510</u>	<u>860,445</u>	<u>(32,935)</u>
Total Expenditures	<u>1,742,063</u>	<u>1,731,768</u>	<u>10,295</u>
Excess of Revenues over Expenditures	602	1,675	1,073
Fund Balance - beginning of year	274,770	274,770	-
Fund Balance - end of year:			
Nonspendable	-	14,973	14,973
Restricted for Tabor	47,612	47,612	-
Unassigned	227,760	213,860	(13,900)
Total Fund Balance - end of year	<u>\$ 275,372</u>	<u>\$ 276,445</u>	<u>\$ 1,073</u>