

**MOUNTAIN SONG COMMUNITY
SCHOOL**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2017



RECEIVED

By the Office of the State Auditor at 8:32 am, Sep 27, 2017

MOUNTAIN SONG COMMUNITY SCHOOL
TABLE OF CONTENTS
JUNE 30, 2017

	Page
Independent Auditors' Report	
Management Discussion and Analysis	<i>i</i>
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet—General Fund	3
Reconciliation of the General Fund Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Change in Fund Balance—General Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	6
Notes to Financial Statements	7
Required Supplementary Information:	
Schedule of Employer's Share of Net Pension Liability and Covered Payroll	24
Schedule of Employer's Statutory Payroll Contributions and Covered Payroll	25
Statement of Revenues, Expenditures, and Change in Fund Balance—Budget and Actual—General Fund	26



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain Song Community School

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

Management's Responsibility for the Financial Statements

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

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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mountain Song Community 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.

Hoelting & Company Inc.

Colorado Springs, Colorado
August 25, 2017

Mountain Song Community School

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2017

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

Financial Highlights

The year ended June 30, 2017 was the fourth year of operations for MSCS. The general fund balance for the fiscal year ending June 30, 2017 is \$555,824.

The operations of MSCS are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$2,215,932.

Overview of Financial Statements

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

The statement of net position presents information on all of MSCS's assets and liabilities, with the difference between the two being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the MSCS is improving or deteriorating. The statement of activities presents information showing how MSCS's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MSCS keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Notes to Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the MSCS's financial position. For the year ended June 30, 2017, the MSCS's total net position was (\$4,384,744) due to the net pension liability in the amount of \$8,684,096, representing its proportionate share of the net pension liability of the School Division Trust Fund (SDTF), a cost sharing multiple employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position on December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

Of the MSCS's total net position, \$22,271 is the Investment in Capital Assets. A balance of (\$4,483,015) is unrestricted and \$76,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

MSCS has Adopted GASB 68

MSCS's Net Position is a negative (\$4,384,744). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$8,684,096, representing its proportionate share of the SDTF's net pension liability.

STATEMENT OF NET POSITION	2016-2017	2015-2016
ASSETS		
Cash	\$ 530,492	\$ 325,151
Intergovernmental Receivable	36,572	29,496
Grants Receivable	-	430
Prepaid Expenses	26,268	22,111
Capital Assets, Net of Accumulated Depreciation	<u>22,271</u>	<u>25,147</u>
TOTAL ASSETS	<u>615,603</u>	<u>402,335</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	<u>3,791,669</u>	<u>891,299</u>
LIABILITIES		
Accounts Payable	1,238	1,452
Accrued Expenses	36,270	-
Noncurrent Liabilities		
Net Pension Liability	<u>8,684,096</u>	<u>4,057,572</u>
TOTAL LIABILITIES	<u>8,721,604</u>	<u>4,059,024</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	<u>70,412</u>	<u>69,171</u>
NET POSITION		
Investment in Capital Assets	22,271	25,147
Restricted for Emergencies	76,000	67,000
Unrestricted	<u>(4,483,015)</u>	<u>(2,926,708)</u>
TOTAL NET POSITION	<u>\$(4,384,744)</u>	<u>\$(2,834,561)</u>

CHANGE IN NET POSITION	2016-2017	2015-2016
REVENUES		
Per Pupil Revenue	\$ 2,215,932	\$ 1,911,476
Capital Construction	86,740	71,214
Charges for Services	49,856	75,677
Operating Grants and Contributions	248,461	187,354
Investment Earnings	-	119
Miscellaneous	-	17,415
	<u>2,600,989</u>	<u>2,263,255</u>
TOTAL REVENUE		
EXPENSES		
Instruction	2,956,519	1,792,102
Support Services	1,194,653	706,908
	<u>4,151,172</u>	<u>2,499,010</u>
TOTAL EXPENSES		
CHANGE IN NET POSITION	<u>(1,550,183)</u>	<u>(235,755)</u>
NET POSITION, Beginning	(2,834,561)	(3,295,846)
PRIOR PERIOD ADJUSTMENT	-	697,040
NET POSITION, Beginning, As restated	<u>(2,834,561)</u>	<u>(2,598,806)</u>
NET POSITION, Ending	<u>\$(4,384,744)</u>	<u>\$(2,834,561)</u>

Financial Analysis of MSCS's Funds

Governmental Funds

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

As of the end of the current fiscal year, MSCS's general fund reported an ending fund balance of \$555,824, an increase of \$180,088 over the year ended June 30, 2017.

General Fund Budgetary Highlights

MSCS budgeted for General Fund expenditures of \$2,96,351 for the year ended June 30, 2017. Actual expenditures were \$2,420,902.

There was a budget amendment during the year, which reflected an increase overall expenditures.

Capital Asset and Debt Administration

Capital Assets

MSCS's investment in capital assets as of June 30, 2017, amounts to \$22,271. This investment in capital assets consists of equipment. The detail of this investment is in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for MSCS is student enrollment. Full time enrollment for the 2016-2017 school year was 315. The student enrollment projected for the 2017-2018 school year is expected to be 290. This factor was considered in preparing MSCS's budget for 2017-2018.

BASIC FINANCIAL STATEMENTS

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Cash	\$	530,492
Intergovernmental receivable		36,572
Prepaid expense		26,268
Capital assets, net of accumulated depreciation		22,271
		22,271
Total Assets		615,603

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension outflows		3,791,669
		3,791,669
Total Deferred Outflows of Resources		3,791,669

LIABILITIES

Accounts payable		1,238
Accrued expenses		36,270
Noncurrent liabilities:		
Due in more than one year		
Net pension liability		8,684,096
		8,684,096
Total Liabilities		8,721,604

DEFERRED INFLOWS OF RESOURCES

Deferred pension inflows		70,412
		70,412
Total Deferred Inflow of Resources		70,412

NET POSITION

Investment in capital assets		22,271
Restricted for TABOR		76,000
Unrestricted		(4,483,015)
		(4,483,015)
Total Net Position	\$	(4,384,744)

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

**MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues				Net Program Expense
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 2,956,519	\$ 49,856	\$ 248,461	\$ -	\$ (2,658,202)
Support services	1,194,653	-	-	86,740	(1,107,913)
Total governmental activities	<u>\$ 4,151,172</u>	<u>\$ 49,856</u>	<u>\$ 248,461</u>	<u>\$ 86,740</u>	<u>(3,766,115)</u>
General Revenues:					
Per pupil revenue					2,215,932
Total general revenues					2,215,932
Change in net position					(1,550,183)
Net position, beginning (deficit)					(2,834,561)
Net position, ending (deficit)					<u>\$ (4,384,744)</u>

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

**MOUNTAIN SONG COMMUNITY SCHOOL
BALANCE SHEET
GENERAL FUND
JUNE 30, 2017**

ASSETS

Cash	\$ 530,492
Intergovernmental receivable	36,572
Prepaid expenses	<u>26,268</u>
 Total Assets	 <u><u>\$ 593,332</u></u>

LIABILITIES

Accounts payable	\$ 1,238
Accrued expenses	<u>36,270</u>
 Total Liabilities	 <u>37,508</u>

FUND BALANCE

Nonspendable	26,268
Restricted for TABOR	76,000
Unassigned	<u>453,556</u>
 Total Fund Balance	 <u>555,824</u>

Total Liabilities and Fund Balance	<u><u>\$ 593,332</u></u>
------------------------------------	--------------------------

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

**MOUNTAIN SONG COMMUNITY SCHOOL
RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance, governmental funds	\$ 555,824
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds, but are reported in the governmental activities of the Statement of Net Position.	22,271
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.	3,791,669
Net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(8,684,096)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.	<u>(70,412)</u>
Total Net Position of Governmental Activities	<u><u>\$ (4,384,744)</u></u>

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

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

Local sources	\$ 63,703
State sources	2,462,762
Federal sources	<u>74,525</u>
Total revenues	<u>2,600,990</u>

EXPENDITURES

Instruction	1,640,858
Support services	<u>780,044</u>
Total expenditures	<u>2,420,902</u>

Net change in fund balance	180,088
Fund balance, beginning	<u>375,736</u>
Fund balance, ending	<u><u>\$ 555,824</u></u>

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

**MOUNTAIN SONG COMMUNITY SCHOOL
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

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

Net change in fund balances - total governmental funds:	\$ 180,088
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 depreciation exceeded capital outlays in the current period.	(2,876)
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.	<u>(1,727,395)</u>
Change in net position of governmental activities	<u><u>\$ (1,550,183)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mountain Song Community School (the School) was organized pursuant to the Colorado Charter Schools Act on February 19, 2013 to form and operate a charter school under the oversight of the State Charter School Institute (CSI). The School began admitting students in the fall of 2013. The School receives its State funding from CSI. The current charter runs through June 30, 2018 and may be renewed for an additional period by mutual agreement of the School and CSI.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

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

Based on the application of these criteria, the School does not include additional organizations within its reporting entity.

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The School reports the following major governmental fund:

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

MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 the related cash flow. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met, and the amount is received during the period or within the availability period of this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

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

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Furniture and equipment of the School are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 years
-------------------------	---------

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

Pensions

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

Deferred outflows/inflows of resources

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

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Deferred outflows/inflows of resources (continued)

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

Net position flow assumption

The School 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 the School's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Classification

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

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

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.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSET, LIABILITIES, AND NET POSITION/FUND BALANCE (CONTINUED)

Fund Balance Classification (continued)

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

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as *general revenues*.

Compensated Absences

The School's employees are granted nine days paid time off during the year for personal needs and illness. Unused leave may not be carried over to subsequent school years. Accumulated paid time off at June 30, 2017 is not considered to be material to the financial statements. As a result, a liability for unused paid time off is not recorded in the financial statements.

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statutes for all funds. Prior to the fiscal year end, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Prior to June 30, the budget is adopted by formal resolution.

MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

BUDGET INFORMATION (CONTINUED)

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

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.

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances.

The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. Colorado State Statutes govern the entity's deposit of cash. The Public Deposit Protection Acts for banks and savings and loans require the state regulators to certify eligible depositories for public deposits. The acts require the eligible depositories with public deposits in excess of the federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the assets in the pool must be at least equal to 102% of the uninsured deposits.

At June 30, 2017, the carrying amount of the School's deposits was \$530,492 and the bank balances were \$556,330. Of the total bank balance, \$250,000 was covered by FDIC insurance and \$306,330 was uninsured, but collateralized in accordance with the provisions of the Colorado Public Deposit Protection Act (PDPA). The collateral is pooled and held in a trust for all uninsured deposits as a group.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The School is required to comply with State statutes that specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

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

The School had no investments as of June 30, 2017.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	Ending <u>Balance</u>
Capital assets, being depreciated:				
Equipment	\$ 28,757	\$ -	\$ -	\$ 28,757
Total capital assets, being depreciated	28,757	-	-	28,757
Less accumulated depreciation	<u>(3,610)</u>	<u>(2,876)</u>	<u>-</u>	<u>(6,486)</u>
Total capital assets, net	<u>\$ 25,147</u>	<u>\$ (2,876)</u>	<u>\$ -</u>	<u>\$ 22,271</u>

Depreciation expense was charged to functions/programs of as follows:

Instruction	<u>\$ 2,876</u>
Total	<u>\$ 2,876</u>

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

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

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

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

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

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

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Mountain Song Community School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Mountain Song Community School were \$254,110 for the year ended June 30, 2017.

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

At June 30, 2017, the Mountain Song Community School reported a liability of \$8,684,096 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The Mountain Song Community School proportion of the net pension liability was based on Mountain Song Community School contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the Mountain Song Community School's proportion was 0.0291668401 percent, which was an increase of 0.0026368666 from its proportion measured as of December 31, 2015.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2017, the Mountain Song Community School recognized pension expense of \$1,981,505. At June 30, 2017, the Mountain Song Community School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 108,565	\$ 76
Changes of assumptions or other inputs	2,817,807	39,161
Net difference between projected and actual earnings on pension plan investments	290,378	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	442,845	31,175
Contributions subsequent to the measurement date	132,074	N/A
Total	\$ 3,791,669	\$ 70,412

\$132,074 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 1,529,176
2019	\$ 1,376,488
2020	\$ 680,623
2021	\$ 2,896

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

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06; (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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. 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 disable 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.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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 SCHDTE, 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 SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount rate. The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- 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 SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the Mountain Song Community School 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	\$ 10,919,972	\$ 8,684,096	\$ 6,863,056

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 6 – OTHER POST-EMPLOYMENT BENEFITS

Health Care Trust Fund

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

Health Care Trust Fund (continued)

Funding policy. The Mountain Song Community School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Mountain Song Community School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016, and 2015 the Mountain Song Community School contributions to the HCTF were \$14,097, \$12,369, and \$11,534, respectively, equal to their required contributions for each year.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

NOTE 8 - CONCENTRATION OF RISK

Charter School Institute

The School is funded directly by the Charter School Institute (CSI) based on the CSI's per pupil funding. For the fiscal year ended June 30, 2017, this funding along with pass-through grant funding accounted for approximately 98% of the School's revenues.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENT

In April 2013, the School entered into a lease agreement with Colorado Springs School District 11 to lease property located at 2904 West Kiowa, Colorado Springs, CO. The agreement requires monthly lease payments ranging from \$8,125 to \$10,833 through June 30, 2018. The total cost for this lease was \$122,937 for the year ended June 30, 2017.

Future minimum lease payments are as follows:

Fiscal Year <u>Ending June 30</u>	
2018	\$ <u>130,000</u>

GRANTS

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse affect on the financial position of the School.

**MOUNTAIN SONG COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School 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 \$76,000 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 11 - COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2017 audit period as required by Colorado Statute CRS 22-44-204(3).

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND COVERED PAYROLL
JUNE 30, 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
School's proportion of the net pension liability (asset)	0.0202251586%	0.0266350960%	0.0265299735%	0.0291668401%
School's proportionate share of the net pension liability (asset)	\$ 2,579,714	\$ 3,609,950	\$ 4,057,572	\$ 8,684,096
School's covered-employee payroll	\$ 815,338	\$ 1,115,819	\$ 1,156,170	\$ 1,309,060
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	316.40%	323.52%	350.95%	663.38%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%

* The amounts presented for each fiscal year were determined as of 12/31.

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF EMPLOYER'S STATUTORY PAYROLL CONTRIBUTIONS AND COVERED PAYROLL
JUNE 30, 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 126,622	\$ 183,329	\$ 200,364	\$ 237,333
Contributions in relation to the contractually required contribution	<u>(126,622)</u>	<u>(183,329)</u>	<u>(200,364)</u>	<u>(237,333)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 815,338	\$ 1,115,819	\$ 1,156,170	\$ 1,309,060
Contributions as a percentage of covered-employee payroll	15.53%	16.43%	17.33%	18.13%

* The amounts presented for each fiscal year were determined as of 12/31.

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources				
Fees	\$ -	\$ -	59,663	\$ 59,663
Tuition	-	-	3,892	3,892
Other	22,300	22,300	148	(22,152)
Total local sources	<u>22,300</u>	<u>22,300</u>	<u>63,703</u>	<u>41,403</u>
State sources				
Per pupil revenue	2,197,978	2,197,978	2,215,932	17,954
Capital construction funding	68,498	68,498	86,740	18,242
Other	124,731	124,731	160,090	35,359
Total state sources	<u>2,391,207</u>	<u>2,391,207</u>	<u>2,462,762</u>	<u>71,555</u>
Federal sources	46,846	46,846	74,525	27,679
Total federal sources	<u>46,846</u>	<u>46,846</u>	<u>74,525</u>	<u>27,679</u>
Total revenues	<u>2,460,353</u>	<u>2,460,353</u>	<u>2,600,990</u>	<u>140,637</u>
EXPENDITURES				
Instruction	1,672,639	1,672,639	1,640,858	31,781
Support services	787,714	787,714	780,044	7,670
Total expenditures	<u>2,460,353</u>	<u>2,460,353</u>	<u>2,420,902</u>	<u>39,451</u>
Net change in fund balance	-	-	180,088	180,088
Fund balance, beginning	<u>203,334</u>	<u>203,334</u>	<u>375,736</u>	<u>172,402</u>
Fund balance, ending	<u>\$ 203,334</u>	<u>\$ 203,334</u>	<u>\$ 555,824</u>	<u>\$ 352,490</u>

See the accompanying independent auditors' report.