

Monument View Montessori Charter School

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

November 29, 2018

To the Board of Directors
Monument View Montessori Charter School
Fruita, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund information of Monument View Montessori Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund, of Monument View Montessori Charter School, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-vii, the budgetary comparison information, pension schedules and the OPEB schedules as listed in the table of contents on pages 38-42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Chadwick, Steinkirchner, Davis & Co., P.C.
Grand Junction, Colorado

MONUMENT VIEW MONTESSORI CHARTER SCHOOL
Management’s Discussion and Analysis

As management of Monument View Montessori Charter School, we offer readers of Monument View Montessori Charter School’s basic financial statements this narrative as an analysis of the financial activities of the school for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

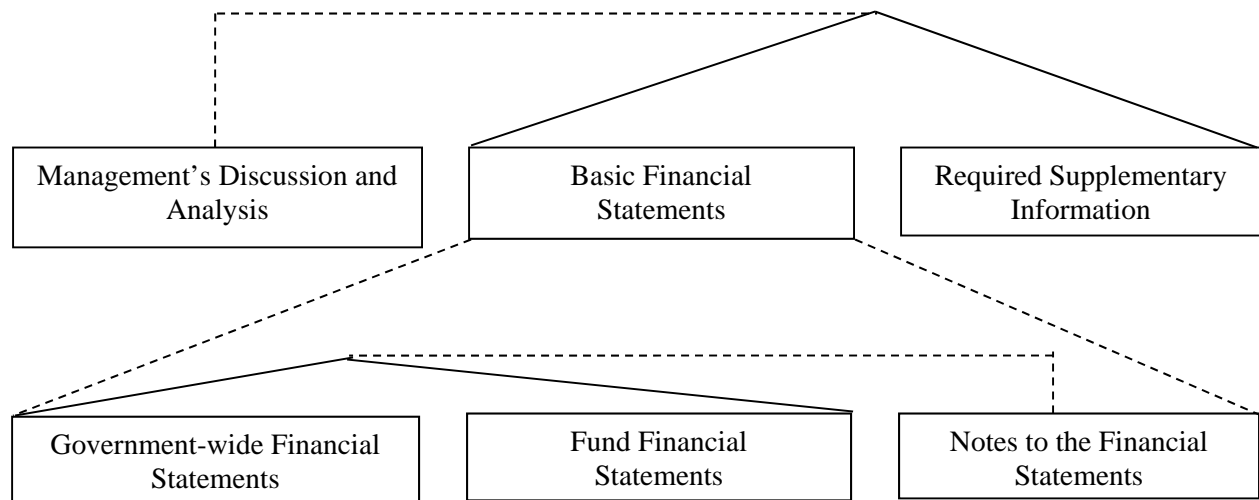
Financial Highlights

- The assets of Monument View Montessori Charter School were less than its liabilities at the close of the most recent fiscal year by (\$243,728) (*net position*). The deficit in net position is attributable to the pension liability related to Monument View Montessori Charter School’s proportionate share of the net pension liability of the School Division Trust Fund (SCHDTF) of \$1,096,653 and its proportional share of the Health Care Trust Fund liability administered by PERA of \$25,043.
- Monument View Montessori Charter School’s total net position decreased by \$273,622.
- As of the close of the current fiscal year, Monument View Montessori Charter School’s governmental/General fund reported a negative ending fund balance of \$25,773, a decrease of \$74,367.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Monument View Montessori Charter School’s basic financial statements. Monument View Montessori Charter School’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

**Organization of Monument View Montessori Charter School
Annual Financial Report**



Summary ←————→ Detail

The following chart summarizes the major features of the Charter School's financial statements, including the portion of Monument View Montessori Charter School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure of each of the statements:

| | Government-wide Statements | Fund Financial Statements Government Funds |
|--------------------------------------|--|---|
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances |
| Accounting basis and focus | Accrual accounting and economic resource focus | Modified accrual accounting and current financial focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included |
| Type of in flow/out flow information | All revenues and expenditures during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable |

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Monument View Montessori Charter School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of Monument View Montessori Charter School's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Monument View Montessori Charter School is improving or deteriorating.

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

The government-wide financial statements display functions of Monument View Montessori Charter School that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of Monument View Montessori Charter School include administration, elementary and secondary regular instruction, special education instruction, instructional support services and sites and buildings.

The government-wide financial statements can be found on pages 3 - 4 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Monument View Montessori Charter School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of Monument View Montessori Charter School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Monument View Montessori Charter School maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is the one governmental fund.

Monument View Montessori Charter School adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 5 and 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are found on pages 9 - 37 of this report.

Other Information

A budgetary comparison schedule for the General fund can be found on page 38 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Monument View Montessori Charter School, assets were less than liabilities by \$248,829 at the close of the most recent fiscal year.

A portion of Monument View Montessori Charter School's net position reflects its investment in capital assets net of any related debt. Monument View Montessori Charter School uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

Net position

| | 2017-2018 |
|---|--------------|
| sets | |
| Current and other assets | \$ 17,694 |
| Capital assets | 46,669 |
| Total assets | 64,363 |
| ferred outflows of resources | |
| Related to pensions | 895,406 |
| Related to other postemployment benefits | 21,518 |
| Total deferred outflows of resources | 916,924 |
| liabilities | |
| Current | 48,568 |
| Non-current | |
| Due within one year | 7,689 |
| Due in more than one year | 1,128,596 |
| Total liabilities | 1,184,853 |
| ferred inflows of resources | |
| Related to pensions | 44,844 |
| Related to other postemployment benefits | 419 |
| Total deferred inflows of resources | 45,263 |
| t position | |
| Investment in capital assets, net of related debt | 46,669 |
| Restricted | 10,566 |
| Unrestricted | (306,064) |
| Total net position | \$ (248,829) |

The restricted portion of Monument View Montessori Charter School's net position of \$10,566 represents amounts restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

The Investment in capital assets represents the leasehold improvements owned by the school net of depreciation expense at June 30, 2018.

The negative amount of \$306,064 reported under unrestricted net position represents Monument View Montessori Charter School's remaining assets and deferred outflows less liabilities and deferred inflows at June 30, 2018. One of the primary drivers of the deficit at year end is the School's proportionate share of the PERA School Division Trust Fund's net pension liability in the amount of \$1,096,653, the proportionate share of the Health Care Trust Fund net pension liability administered by PERA in the amount of \$25,043, and the deferred inflows and outflows of resources related to these liabilities. An additional contributor is the negative fund balance in current financial resources resulting from liabilities exceeding assets at June 30, 2018 for the School.

Monument View Montessori Charter School's net position decreased \$278,723 during the current fiscal year. The following summarizes the changes in net position.

| Changes in Net position | |
|------------------------------------|--------------|
| | 2017-2018 |
| Revenues | |
| Program revenues | |
| Charges for services | \$ 72,190 |
| Operating grants and contributions | 95,204 |
| Capital grants and contributions | 6,014 |
| General revenue | |
| Per pupil revenue | 165,872 |
| Other | 981 |
| Total revenue | 340,261 |
| Expenses | |
| Instructional | 460,951 |
| Support services | 158,033 |
| Total expenses | 618,984 |
| Change in net position | (278,723) |
| Net position, July 1 | 29,894 |
| Net position, June 30 | \$ (248,829) |

This was the first year of operations for the School. Revenues in the prior year were for capital grants and start-up costs. \$250,035 of the expense in Instructional services is pension and other postemployment benefit expense related those liabilities mentioned earlier and discussed in Footnotes G and H.

Financial Analysis of the Government's Funds

As noted earlier, Monument View Montessori Charter School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, Monument View Montessori Charter School's governmental/General fund reported a combined ending negative fund balance of (\$25,773) driven by a current year decrease in fund balance of (\$74,367). This loss was due in large part to start-up costs and staff turnover during fiscal year 2018.

\$10,566 of fund balance should be restricted as an emergency reserve in compliance with the TABOR Amendment (See Footnote J). The negative fund balance in the general fund may be a violation of the TABOR Amendment.

General Fund Budgetary Highlights

Monument View Montessori Charter School budgeted for expenditures and transfers of \$550,095 for the year ended June 30, 2018. Actual expenditures and transfers were \$463,742. There was one budget amendment in mid-year to decrease both budgeted revenues and budgeted expenditures. The revised budgeted expenditures were \$458,571. The School exceeded the revised budget by \$4,880.

Capital Assets

The School has invested in capital assets for leasehold improvements to the building it leases in the amount of \$46,669 net of depreciation expense. Further information about the School's capital assets can be found at Footnote D.

Debt

The Schools debt consists of an interest free note payable from a student's parent, and a note from the Charter School Development Corporation for startup costs. Detail of the School's debt can be found at Footnote E.

Factors Bearing on Monument View Montessori Charter School's Future

Factors Bearing on Monument View Montessori Charter School's Future

The primary factor driving the budget for Monument View Montessori Charter School is student enrollment. The 2018/2019 preliminary budget was based on approximately 36 students or approximately 31 FTE and will be revised in December 2018/January 2019 to reflect a lower student population of approximately 2 FTE. While the loss of any student enrollment is a concern, we believe that better communication about Montessori education and our delivery of this educational model will alleviate such losses in the future. Also, as we embarked upon the current school year, we learned through a review of licensing requirements that our current building at 433 East Aspen Avenue will only be permitted to accommodate 40 children. This fact was not disclosed by the previous Head of School to the Board prior

to the selection of our current building. Approval to lease the current building was granted with the incorrect information that the building would be permitted to accommodate 45 children. Even 5 additional children in a tight budget model such as ours would have made a tremendous difference in our budget and allowed us a wider range of error for potential withdrawals. As it was, we turned parents away, with students who ultimately could have replaced the loss of the 2 students at the start of the School year.

The outlook for state funding via Per Pupil Revenue (PPR) remains relatively unknown but is expected to be flat or slightly increasing in terms of what can be depended on for budget purposes.

After an extremely tumultuous second year, during which the School Board found itself at the crossroads of revocation (and certain shutdown) versus a completely radical change in staff, Monument View Montessori Charter School has begun adhering to GAAP and taking austerity measures that have helped to stabilize the School's finances.

As already mentioned, our future budget is affected largely by the limitations of our current facility. This particular issue has recently received heightened attention, thanks to an initiative from several parents. At its most recent monthly meeting, the School Board launched an exploratory committee for facilities. This committee will soon be sanctioned to operate as the School's official Facilities Committee. It has been tasked with urgency to the issues of both financing and locating a facility that will allow our School to accommodate what we project to be a 20%-30% expansion in the next School year. These projections are based on several factors including our delivery of a quality education product merging Montessori education in the public sector, stronger "word-of-mouth" in the community regarding the stability of our School and the pressing need for educational opportunities in the Fruita area and throughout the Grand Valley, for that matter.

The brevity of this explanation should not obscure the fact that the Board and the Staff are aware of the work ahead necessary to extract our School from the unfortunate circumstances of our second year. One of the most significant exogenous factors bearing on our School's success is the familiarity (or lack thereof) with Montessori education itself in our semi-rural but changing demographic area, but this is an issue that is receiving heightened attention now that 3 of our staff are undergoing Montessori certification and having hired a highly-qualified and Montessori-credentialed Head of School. Alternatively, the endogenous factors pertaining to our finances, parent communication, staff readiness and educational delivery are being handled at an aggressive pace by our new Head of School, who has embarked upon her position with diligence and zeal.

Requests for Information

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

Beverley Brownson, Head of School
Cori Rasmussen, Assistant Head of School
Perry Cabot, President, MVMCS Board of Directors

Monument View Montessori Charter School
433 East Aspen Avenue
Fruita, CO 81521
(970) 858-3798

Monument View Montessori Charter School

STATEMENT OF NET POSITION

June 30, 2018

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash | \$ 3,944 |
| Grants receivable | 12,922 |
| Accounts receivable | 828 |
| Capital assets: | |
| Depreciable capital assets, net | <u>46,669</u> |
| Total assets | 64,363 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to OPEB | 21,518 |
| Deferred outflows related to pension | <u>895,406</u> |
| Total assets and deferred outflows of resources | <u>981,287</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 5,641 |
| Advance | 6,568 |
| Line of credit | 18,798 |
| Accrued salaries and benefits | 17,561 |
| Noncurrent liabilities: | |
| Notes payable, current portion | 7,689 |
| Notes payable | 6,900 |
| Net OPEB liability | 25,043 |
| Net pension liability | <u>1,096,653</u> |
| Total liabilities | 1,184,853 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to OPEB | 419 |
| Deferred inflows related to pension | <u>44,844</u> |
| Total liabilities and deferred inflows of resources | <u>1,230,116</u> |
| NET POSITION | |
| Net investment in capital assets | 46,669 |
| Restricted for emergencies | 10,566 |
| Unrestricted | <u>(306,064)</u> |
| Total net position | <u>\$ (248,829)</u> |

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) |
|-------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| | | | | | Governmental Activities |
| Governmental activities: | | | | | |
| Instructional services | \$ 460,951 | \$ 62,868 | \$ 93,220 | \$ - | \$ (304,863) |
| Support services | 158,033 | 9,322 | 1,984 | 6,014 | (140,713) |
| Total governmental activities | <u>\$ 618,984</u> | <u>\$ 72,190</u> | <u>\$ 95,204</u> | <u>\$ 6,014</u> | <u>(445,576)</u> |
| General revenues: | | | | | |
| State equalization | | | | | 165,872 |
| Miscellaneous income | | | | | 981 |
| Total general revenues | | | | | <u>166,853</u> |
| Change in net position | | | | | (278,723) |
| Net position - beginning | | | | | <u>29,894</u> |
| Net position - ending | | | | | <u>\$ (248,829)</u> |

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2018

| | | <u>General</u> |
|------------------------------------|------------------------------------|-------------------------|
| ASSETS | | |
| Cash | | \$ 3,944 |
| Grants receivable | | 12,922 |
| Accounts receivable | | <u>828</u> |
| | Total assets | <u><u>\$ 17,694</u></u> |
| LIABILITIES AND FUND EQUITY | | |
| Liabilities | | |
| Accounts payable | | \$ 5,641 |
| Advance | | 6,568 |
| Alpine bank line of credit | | 18,798 |
| Accrued salaries and benefits | | <u>17,561</u> |
| | Total liabilities | <u>48,568</u> |
| Fund Balance | | |
| Restricted for TABOR | | 10,566 |
| Unassigned | | <u>(41,440)</u> |
| | Total fund balance | <u>(30,874)</u> |
| | Total liabilities and fund balance | <u><u>\$ 17,694</u></u> |

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION

June 30, 2018

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

| | |
|--|---------------------|
| Fund balance | \$ (30,874) |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$50,072 and the accumulated depreciation is \$3,334 | 46,669 |
| The amount by which deferred outflows of resources are more than deferred inflows of resources, both of which are not recorded in the funds | |
| Deferred outflows related to OPEB | 21,518 |
| Deferred outflows related to pension | 895,406 |
| Deferred inflows related to OPEB | (419) |
| Deferred inflows related to pension | (44,844) |
| Notes payable are recognized as other financing sources and debt service payments in the funds but is recognized as a liability in the statement of net position. | (14,589) |
| Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the funds | (25,043) |
| Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds | (1,096,653) |
| Total net position - governmental activities | <u>\$ (248,829)</u> |

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School

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

Year ended June 30, 2018

| | <u>General</u> |
|--|---------------------------|
| Revenues | |
| Local sources | |
| Tuition and scholarships | \$ 72,192 |
| Private grants and contributions | 7,210 |
| Miscellaneous income | 5,114 |
| Total local sources | <u>84,516</u> |
| State sources | |
| State equalization - direct pupil allocation | 165,873 |
| Grants | 20,983 |
| Total state sources | <u>186,856</u> |
| Federal sources | |
| Grants | 68,891 |
| Total revenues | <u>340,263</u> |
| Expenditures | |
| Instructional | 183,427 |
| Supporting services | 158,033 |
| Principal payments | 47,831 |
| Capital outlay | 74,160 |
| Total expenditures | <u>463,451</u> |
| Excess of revenues over (under) expenditures | (123,188) |
| Other financing sources | |
| Loan proceeds | <u>43,720</u> |
| Change in fund balance | (79,468) |
| Fund balance, beginning of year | 48,594 |
| Fund balance, end of year | <u><u>\$ (30,874)</u></u> |

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School

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

Year ended June 30, 2018

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

| | |
|--|-------------|
| Change in Fund Balance - Governmental Fund | \$ (79,468) |
|--|-------------|

| | |
|---|--------|
| In the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. In the governmental funds, capital outlays are an expenditure in the current period. This is the amount by which capital expenditures exceeded depreciation expense (\$50,003-\$3,334). | 46,667 |
|---|--------|

| | |
|--|----------|
| Additions to long-term debt are recognized as other financing sources in the fund financial statements but recognized as long term debt in the government wide statement of net position. This is the effect of debt activity in the year. | |
| Loan proceeds | (43,720) |
| Principal payments | 47,831 |

| | |
|--|----------------|
| In the governmental funds, expenditures related to pension and OPEB obligations are measured by the amount of financial resources used (essentially, the amounts actually paid to the pension plan), whereas in the statement of activities, they are measured on full accrual basis. This is the amount by which pension expense in the statement of activities was more than pension expenditures in the governmental funds. | |
| Pension expense | (246,089) |
| OPEB expense | <u>(3,944)</u> |

| | |
|--|---------------------|
| Change in Net Position - Governmental Activities | <u>\$ (278,723)</u> |
|--|---------------------|

The accompanying notes are an integral part of this statement.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Monument View Montessori Charter School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school in Fruita, Colorado. The School entered into a contract with the Colorado Charter School Institute (the “Institute”) to authorize the School for an initial term of three years, through June 30, 2020. The School began operations in the fall of 2017. The accounting policies of the School conform to generally accepted accounting principles as applicable to the governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the School’s significant accounting policies:

1. The Reporting Entity

Monument View Montessori Charter School consists of a School established under the Charter Schools Act serving Pre-K-4 grade students. It is governed by an independently elected Board of Directors.

Monument View Montessori Charter School Building Corporation (“Building Corporation”) is a nonprofit organization that was formed exclusively for holding title and/or personal property for Monument View Montessori Charter School. The board of directors of the Building Corporation is the same as that of the School and the Building Corporation is dependent on the school to make debt payments on loans obtained to improve or secure facilities for the School. As such, the Building Corporation is a blended component unit of Monument View Montessori Charter School. All financial activity took place in the School’s general fund during 2018.

2. Government-wide and Fund Financial Statements

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

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

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

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Intergovernmental revenue, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School. When both restricted and unrestricted resources are available for use, it is the School's intent to use restricted resources first and the unrestricted resources as they are needed. There is no formal policy.

The School reports the following major governmental fund:

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

4. Assets, Liabilities and Net Position/Fund Balance

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

State statutes authorize the School to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of bonds of U.S. local government entities, bankers' acceptances of certain banks, commercial

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

paper, repurchase agreements collateralized by certain authorized securities, certain money market funds, and guaranteed investment contracts.

Receivables - The School considers all receivables to be fully realizable and maintains an allowance for doubtful accounts of \$0.

Capital Assets - Capital assets, which include equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

| | |
|------------------------|----------|
| Equipment | 3 years |
| Leasehold improvements | 20 years |

Payroll Liabilities - Salaries and retirement benefit contributions of employed personnel that are earned during a School year but not paid by year's end are reported as a liability of the General Fund.

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

5. Stewardship, compliance and accountability

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

During the budget year, the Board of Directors has the option of changing and finalizing the budget for the fiscal year. One supplemental budget amendments was adopted during the fiscal year ended June 30, 2018 that reduced both budgeted revenues and expenditures.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The School exceeded its final budgeted expenditures by \$4,880, which may be a violation of State of Colorado budget law.

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

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

6. Income Taxes

The School's application for exempt status under Section 501(c)(3) of the Internal Revenue Code is pending. The School anticipates it will be exempt from income taxes because it meets all requirement under Section 501(c)(3). The School is required to file *Form 990: Return of Organization from Income Tax* annually while its application is pending.

7. Pensions

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension form through Senate Bill (SB) 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes to be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018*.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Other Post Employment Benefits

OPEB. Monument View Montessori Charter School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The net OPEB liability, deferred outflow of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and addition to/deductions form the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B – CASH AND INVESTMENTS

The carrying value of cash deposits in banking institutions as of June 30, 2018 is as follows:

| | |
|-----------------|-----------------|
| Demand accounts | \$ <u>3,944</u> |
|-----------------|-----------------|

Deposits - The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government including component units deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. As of June 30, 2018, the School had deposits of \$5,156, of which all was covered by federal depository insurance.

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

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

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

The School had no investments at June 30, 2018.

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE C – FUND BALANCES

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

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

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is School intent to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned. There is no formal policy.

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

The School's general fund has a negative fund balance at June 30, 2018 of (\$30,874).

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE D – CAPITAL ASSETS

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | \$ — | \$ 50,003 | \$ — | \$ 50,003 |
| Total capital assets, being depreciated | — | 50,003 | — | 50,003 |
| Less accumulated depreciation: | | | | |
| Equipment | — | (3,334) | — | (3,334) |
| Total accumulated depreciation | — | (3,334) | — | (3,334) |
| Total capital assets, being depreciated, net | — | 46,669 | — | 46,669 |
| Total capital assets | \$ — | \$ 46,669 | \$ — | \$ 46,669 |

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

| | |
|----------------------------|----------|
| Governmental activities: | |
| Instructional services | \$ 3,334 |
| Total depreciation expense | \$ 3,334 |

NOTE E – DEBT

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

| | Balance June 30, 2017 | Additions | Payments | Balance June 30, 2018 | Due in one year |
|-----------------------|-----------------------------|--------------|-----------|-----------------------------|--------------------|
| Private note payable | \$ 18,700 | \$ 15,000 | \$ 25,600 | \$ 8,100 | \$ 1,200 |
| CSDC Loan | — | 28,720 | 22,231 | 6,489 | 6,489 |
| Net OPEB liability | — | 25,043 | — | 25,043 | — |
| Net pension liability | — | 1,096,653 | — | 1,096,653 | — |
| | \$ 18,700 | \$ 1,165,416 | \$ 47,831 | \$ 1,136,285 | \$ 7,689 |

The School has an interest free note with an individual whose child attends the School. The initial note was \$18,700 and was loaned during the year ended June 30, 2017. An additional \$15,000 was loaned to the School in fiscal year 2018. Three payments totaling \$25,000 were paid on the note during 2018 and the remaining balance is being paid at a rate of \$100 per month beginning in January 2017.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE E –DEBT – CONTINUED

The Building Corporation entered into a loan agreement with Charter Schools Development Corporation (“CSDC”) on July 10, 2017. The loan was provided to finance building improvements at the property being leased by the School in Fruita, Colorado. Payments of \$2,021 including principal and interest are due monthly and are paid over 18 months.

The amortization of long-term notes payable is as follows:

| | |
|---------------------|------------------|
| 2019 | \$ 7,689 |
| 2020 | 1,200 |
| 2021 | 1,200 |
| 2022 | 1,200 |
| 2023 | 1,200 |
| Thereafter | <u>2,100</u> |
| Total notes payable | <u>\$ 14,589</u> |

Short-term debt

The line of credit with Alpine bank has an available balance of \$20,000 and carries of interest rate of 8%. The outstanding balance on the line of credit was \$18,797 at June 30, 2018.

The advance from CSI in the amount of \$6,568 is a short term loan to assist in ongoing operations of the School during fiscal year 2018 and will be repaid from per pupil revenue in fiscal year 2019. This is an interest-free note.

NOTE F – OPERATING LEASE

The School had an operating lease for its location in Fruita during 2018. This was a one year lease that expired on June 30, 2018. A new lease was signed in fiscal year 2019. The School also paid rent for a second location in Fruita, Colorado during 2018. That lease ended in December 2017. Total lease expense for the year ended June 30, 2018 was \$38,900.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

Benefits Provided as of December 31, 2107. 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% and then multiplied by years of service credit
- The value of the retiring employee’s member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

In all cases the service retirement benefit is limited to 100% 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

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

eligible, the member may receive a match of either 50% or 100% 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.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price

Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients receive an annual increase of the lesser of 2% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve for the SCHDTF.

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

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

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Contributions provisions as of June 30, 2018. Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8% of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

| | For the Calendar Year Ended December 31, 2017 | For the Calendar Year Ended December 31, 2018 |
|---|--|--|
| Employer Contribution Rate ¹ | 10.15% | 10.15% |
| Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹ | (1.02)% | (1.02)% |
| Amount Apportioned to the SCHDTF ¹ | 9.13% | 9.13% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹ | 4.50% | 4.50% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹ | 5.00% | 5.50% |
| Total Employer Contribution Rate to the SCHDTF ¹ | 18.63% | 19.13% |

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$22,914 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of \$1,096,653 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The School’s proportion of the net pension liability was based on the School’s contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the School’s proportion was 0.003391%, which was an increase of 0.003391% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized pension expense of \$269,005. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 20,163 | \$ – |
| Changes of assumptions or other inputs | 280,016 | 1,777 |
| Net difference between projected and actual earnings on pension plan investments | – | 43,067 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 585,519 | – |
| Contributions subsequent to the measurement date | 9,708 | – |
| Total | <u>\$ 895,406</u> | <u>\$ 44,844</u> |

\$9,708 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal-Year Ending June 30, | |
|--------------------------------|------------|
| 2019 | \$ 415,586 |
| 2020 | 340,960 |
| 2021 | 100,510 |
| 2022 | (16,202) |

Monument View Montessori Charter School
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

| | |
|---|---|
| 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 |

A discount rate of 4.78 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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.

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the period January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected rate of return on pension plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset 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% | |

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 4.78 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:

- 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.
- 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

Monument View Montessori Charter School
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

- 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 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

Sensitivity of the School’s proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78%, 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 (3.78%) or 1-percentage point higher (5.78%) than the current rate:

| | Sensitivity of the NPL | | |
|--|------------------------|--------------|------------|
| Discount rate: | 3.78% | 4.78% | 5.78% |
| Proportionate share of the net pension liability | \$ 1,385,259 | \$ 1,096,653 | \$ 861,472 |

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/investment/pera-financial-reports.

Monument View Montessori Charter School
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Payables to the pension plan

Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).

- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018, the school reported a liability of \$1,096,653 for its proportionate share of the net pension liability which was measured using the plan provision in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the school's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, became law on December 31, 2017. This pro forma information was prepared using the

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

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NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

| | |
|---|--|
| Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma) | Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18- 200 (pro-forma) |
| <hr/> 7.25% | <hr/> \$495,458 |

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$511,294 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

General Information about the OPEB Plan

Plan description. Eligible employees of the school are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, 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 the premium subsidies. 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. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member’s years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

DPS Benefit Structure

The maximum service-based premium subsidy is \$230 per month for retirees who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for retirees who are 65 years of age or older or who are under 65 years of age and entitled to

Medicare. The basis for the maximum subsidy, in each case, is for retirees with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The retiree pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the school were \$723 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the school reported a liability of \$25,043 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The District proportion of the net OPEB liability was based

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

on District contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the District proportion was .00193 percent, which was an increase of .00193 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$3,944. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$118 | \$– |
| Net difference between projected and actual earnings on OPEB plan investments | – | 419 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 20,882 | – |
| Contributions subsequent to the measurement date | 518 | N/A |
| Total | \$21,518 | \$419 |

\$518 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended June 30, 2018: | |
|----------------------------------|---------|
| 2019 | \$4,021 |
| 2020 | 4,021 |
| 2021 | 4,021 |
| 2022 | 4,021 |
| 2023 | 4,125 |
| Thereafter | 372 |

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

Actuarial assumptions. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

| | |
|---|---|
| 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 percent in aggregate |
| Long-term investment rate of return, net of OPEB | |
| plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Health care cost trend rates | |
| PERA benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | 5.00 percent |
| Medicare Part A premiums | 3.00 percent for 2017, gradually rising to 4.25 percent in 2023 |
| DPS benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | N/A |
| Medicare Part A premiums | N/A |

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

| Year | PERACare Medicare Plans | Medicare Part A Premiums |
|-------|-------------------------|--------------------------|
| 2017 | 5.00% | 3.00% |
| 2018 | 5.00% | 3.25% |
| 2019 | 5.00% | 3.50% |
| 2020 | 5.00% | 3.75% |
| 2021 | 5.00% | 4.00% |
| 2022 | 5.00% | 4.00% |
| 2023 | 5.00% | 4.25% |
| 2024+ | 5.00% | 4.25% |

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on 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 for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 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 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on 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 based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

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.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, 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 for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

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

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

Sensitivity of the District proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

| | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|-------------------------------------|----------------------------|---------------------|----------------------------|
| PERACare Medicare trend rate | 4.00% | 5.00% | 6.00% |
| Initial Medicare Part A trend rate | 2.00% | 3.00% | 4.00% |
| Ultimate Medicare Part A trend rate | 3.25% | 4.25% | 5.25% |
| Net OPEB Liability | \$24,354 | \$25,043 | \$25,873 |

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 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 health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- 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%.
- 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. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- 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.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits 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 HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the District proportionate share of the net OPEB liability to changes in the discount rate. The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

Monument View Montessori Charter School
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN - CONTINUED

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|------------------------|----------------------------------|------------------------|
| Proportionate share of the net OPEB liability | \$28,156 | \$25,043 | \$22,386 |

OPEB plan fiduciary net position. Detailed information about the HCTF’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 I – RISK MANAGEMENT

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

The School is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. The School uses workers compensation and other liability insurance to help mitigate these risks. During the year ended June 30, 2018, the School paid \$10,020 in related insurance premiums to insurers.

NOTE J – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20 (TABOR Amendment), which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

The TABOR Amendment requires the School to establish a reserve of 3% of fiscal year spending for declared emergencies. At June 30, 2018, the District should have \$10,566 in TABOR reserves. The negative fund balance in the general fund may be a violation of this requirement.

NOTE K – COMMITMENTS AND CONTINGENCIES

Claim and Judgments – The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government.

Monument View Montessori Charter School

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE K – COMMITMENTS AND CONTINGENCIES - CONTINUED

The school elected to not pay for unemployment insurance during fiscal years 2017 and 2018 and has incurred a liability for former employees who filed for unemployment benefits after leaving the School. The total amount of the liability at June 30, 2018 is \$15,106.

NOTE L – RELATED PARTY TRANSACTIONS

As noted in Note E, the School borrowed money in 2017 and 2018 for a total of \$33,700 from an individual whose child attends the School. The note is interest free and has a balance of \$8,100 at June 30, 2018.

From July through December 2017, the School was paying rent for a second location in Fruita that was also housing the mother of the individual managing the School. Total rent paid for this location was \$12,500.

NOTE M – NEGATIVE FUND BALANCE

The School has a negative fund balance in its general fund at June 30, 2018 in the amount of (\$30,874). This includes a restricted balance of \$10,566 and a negative unassigned balance (\$41,440).

Monument View Montessori Charter School

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

Year ended June 30, 2018

| | Budget | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|------------------|------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 221,000 | \$ 221,000 | \$ 84,516 | \$ (136,484) |
| State source | 237,645 | 146,121 | 186,856 | 40,735 |
| Federal sources | 109,564 | 109,564 | 68,891 | (40,673) |
| Total revenues | <u>568,209</u> | <u>476,685</u> | <u>340,263</u> | <u>(136,422)</u> |
| Expenditures | | | | |
| Instructional services | 334,381 | 242,857 | 183,427 | 59,430 |
| Supporting services | 215,714 | 215,714 | 158,033 | 57,681 |
| Principal payments | - | - | 47,831 | (47,831) |
| Capital outlay | - | - | 74,160 | (74,160) |
| Total expenditures | <u>550,095</u> | <u>458,571</u> | <u>463,451</u> | <u>(4,880)</u> |
| Excess of revenues over (under) expenditures | 18,114 | 18,114 | (123,188) | (131,542) |
| Other financing sources | | | | |
| Proceeds from notes payable | - | - | 43,720 | 43,720 |
| Change in fund balance | 18,114 | 18,114 | (79,468) | (87,822) |
| Fund balance beginning of year | <u>48,594</u> | <u>48,594</u> | <u>48,594</u> | <u>-</u> |
| Fund balance end of year | <u>\$ 66,708</u> | <u>\$ 66,708</u> | <u>\$ (30,874)</u> | <u>\$ (97,582)</u> |

Monument View Montessori Charter School

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2018

| | Employer proportion of NPL | Employer proportionate share of NPL | Employer covered payroll | Employer proportionate share of NPL as a percentage of covered payroll | Pension plan's fiduciary net position as a percentage of total pension liability |
|--------------------------|----------------------------------|---|--------------------------------|---|---|
| <u>Measurement date:</u> | | | | | |
| December 31, 2017 | 0.00339% | \$ 1,096,653 | \$ 121,635 | 902% | 44% |

Monument View Montessori Charter School

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2018

| | Required employer contribution | Employer contributions recognized by the plan | Difference | Employer covered payroll | Contributions as a percentage of employer covered payroll |
|---------------|--------------------------------------|--|------------|--------------------------------|--|
| June 30, 2018 | \$ 22,914 | \$ 22,914 | \$ - | \$ 121,635 | 19% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

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

Monument View Montessori Charter School

SCHEDULE OF ACTIVITY - NET OPEB LIABILITY

June 30, 2018

| | Employer proportion of Net OPEB Liability | Employer proportionate share of Net OPEB Liability | Employer covered payroll | Employer proportionate share of Net OPEB Liability as a percentage of covered payroll | OPEB plan's fiduciary net position as a percentage of total pension liability |
|--------------------------|---|---|--------------------------------|--|--|
| <u>Measurement date:</u> | | | | | |
| December 31, 2017 | 0.00193% | \$ 25,043 | \$ 121,635 | 21% | 18% |

Monument View Montessori Charter School

SCHEDULE OF ACTIVITY - EMPLOYER OPEB CONTRIBUTIONS

June 30, 2018

| | Required employer contribution | Employer contributions recognized by the plan | Difference | Employer covered payroll | Contributions as a percentage of employer covered payroll |
|---------------|--------------------------------------|--|------------|--------------------------------|--|
| June 30, 2018 | \$ 1,241 | \$ 1,241 | \$ - | \$ 121,635 | 1% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

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