

**Salida Montessori Charter School**

Financial Statements

June 30, 2019



# Salida Montessori Charter School

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## Independent Auditors' Report

Board of Directors  
Salida Montessori Charter School  
Salida, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Salida Montessori Charter School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Salida Montessori Charter School, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Salida Montessori Charter School as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

*Hick & Company, PC*

Greenwood Village, Colorado  
October 14, 2019



# **Salida Montessori Charter School**

## **Management's Discussion and Analysis**

### **As of and for the Year Ended June 30, 2019**

As management of Salida Montessori Charter School (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

#### **Financial Highlights**

The year ending June 30, 2019, was the fourth year of operations for the School. As of June 30, 2019, the net position was (\$2,221,878). The negative net position is due to the reporting of the School's proportionate share of the Public Employees Retirement Association (PERA) unfunded pension liability and the OPEB (Other than Pension Post-Employment Benefits) liability. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Per Pupil Revenue (PPR) for the year was \$650,629. The General Fund ending fund balance increased \$62,510 to \$200,162, or 45.4%.

#### **Overview of Basic Financial Statements**

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

##### ***Government-wide Financial Statements***

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

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

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

##### ***Fund Financial Statements***

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

**Salida Montessori Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2019**

The School adopts an annual budget. Budgetary comparisons have been provided for the General Fund (page 31) in the required supplementary information to demonstrate compliance with the budget.

**Proprietary Fund.** The Salida Montessori Building Corporation, considered a component unit of the School, has one fund, an enterprise fund. It is presented with a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The fund ended the year with a net position of \$102,355. The Building Corporation was created in FY18 for the purpose of acquiring a future permanent site for the School.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are disclosed on pages 11 through 28.

**Government-wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of the School's financial condition. As of June 30, 2019, the School's liabilities and deferred inflows exceeded assets and deferred outflows by \$2,221,878. \$29,000 of this total is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy general operating expenses of the School. The unrestricted net position balance was (\$2,378,250) reflecting a further deterioration of \$203,220 over the prior year.

The School adopted the standards of GASB 75 for the year ended June 30, 2019, and beginning net assets were restated as a result. Information presented for the year ended June 30, 2018, has not been restated because comparable information is not available.

**Net Position Governmental and Business-Type Activities for the period ending June 30, 2019 and 2018 respectively:**

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Assets</b>		
Cash and Investments	\$ 288,648	\$ 209,592
Accounts Receivable	5,604	9,427
Grants Receivable	-	2,930
Prepaid Expenses	9,651	15,375
Capital Assets (Net)	627,372	645,062
Total Assets	931,275	882,386
Deferred Outflows – Pensions/OPEB	701,227	1,695,286
<b>Liabilities</b>		
Accounts Payable and Accrued Liabilities	20,022	20,087
Accrued Salaries and Benefits	40,890	39,822
Unearned Revenue	41,820	37,836
Noncurrent Liability - Loan	500,000	500,000

**Salida Montessori Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2019**

Noncurrent Liability – Net Pension/OPEB Liability	<u>1,866,901</u>	<u>3,834,809</u>
Total Liabilities	<u>2,469,633</u>	<u>4,432,554</u>
 Deferred Inflows – Pensions/OPEB	 <u>1,384,747</u>	 <u>163,776</u>
 Net Position		
Net Investment in Capital Assets	127,372	145,062
Restricted for Emergencies	29,000	29,000
Unrestricted	<u>(2,378,250)</u>	<u>(2,192,720)</u>
Total Net Position	<u>\$ (2,221,878)</u>	<u>\$ (2,018,658)</u>

**Salida Montessori Charter School**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2019**

**Change in Net Position Governmental and Business-Type Activities for the period ending June 30, 2019 and 2018 respectively:**

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Revenues		
Program Revenues		
Operating Grants and Contributions	\$ 86,474	\$ 72,653
Charges for Services	<u>256,264</u>	<u>244,974</u>
Total Program Revenues	<u>342,738</u>	<u>317,627</u>
General Revenues		
Per Pupil Revenue	650,629	632,713
At Risk Supplemental Aid	5,725	5,464
Additional At Risk Funding	176	219
Capital Construction	24,829	22,368
Mill Levy Equalization	27,230	-
Restricted Grants and Contributions	2,226	5,314
Other	<u>30,854</u>	<u>18,401</u>
Total General Revenues	<u>741,669</u>	<u>684,479</u>
Total Revenues	<u>1,084,407</u>	<u>1,002,106</u>
Expenses		
Instruction	858,057	1,506,051
Supporting Services	388,728	475,778
Interest, Fiscal Charges, Depreciation	<u>40,842</u>	<u>13,632</u>
Total Expenses	<u>1,287,627</u>	<u>1,995,461</u>
Decrease in Net Position	(203,220)	(993,355)
Net Position, Beginning of Year	<u>(2,018,658)</u>	<u>(1,025,303)</u>
Net Position, End of Year	<u>\$ (2,221,878)</u>	<u>\$ (2,018,658)</u>

**Financial Analysis of the School's Fund**

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. The General Fund began the year with a positive fund balance of \$137,652. As a result of operating within its budget, the General Fund ending fund balance increased to \$200,162 at year-end or an increase of 45.4%. Eighty one percent of the General Fund ending fund balance is unassigned.

**General Fund Budgetary Highlights**

# **Salida Montessori Charter School**

## **Management's Discussion and Analysis**

### **As of and for the Year Ended June 30, 2019**

The School budgeted General Fund expenditures of \$1,112,778 for the year ended June 30, 2019. Actual expenditures were \$1,007,088. Overall the General Fund budget had a positive variance of \$105,690 which was planned.

A budget amendment was not passed during the year.

#### **Capital Assets and Debt Administration**

The School leases its school facilities under two operating lease agreements that were signed in April 2015. The lease options were again extended one year in July of 2020. The School and Building Corporation had net capital assets of \$601,346 and accumulated depreciation of \$29,948 at June 30, 2019. Capital additions for the year were zero.

The Building Corporation had \$500,000 in interest only debt at June 30, 2019. The loan originated 3/13/2019 with High Country Bank, has a two year term maturing 4/1/2020 and carries a 5% interest rate.

#### **Economic Factors, Next Year's Budget, Student Counts**

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) was 69.2, 75.8, 84.8 and 82.8 for FY16, FY17, FY18 and FY19 respectively. The FPC used to create the FY20 budget was 87 or flat enrollment over the prior year. The FPC moving forward will be the same as the enrollment total as the School now receives full funding for kindergarten students.

The State of Colorado continues to chip away at the large budget stabilization factor (shortfall in the School Finance Act - \$572.4 Million). The Per Pupil Revenue funding (PPR) for FY20 will grow approximately 6.1%. As the Colorado economy continues to improve as evidenced by the very low unemployment rate and sales tax growth, it is likely we will see a similar PPR increases in FY21.

#### **Requests for Information**

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

## **Basic Financial Statements**

**Salida Montessori Charter School**  
Statement of Net Position  
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 287,578	\$ 1,070	\$ 288,648
Accounts Receivable	5,604	-	5,604
Prepaid Expenses	9,651	-	9,651
Capital Assets, <i>Not Being Depreciated</i>	-	238,129	238,129
Capital Assets, <i>Net of Accumulated Depreciation</i>	26,026	363,217	389,243
Total Assets	<u>328,859</u>	<u>602,416</u>	<u>931,275</u>
<b>Deferred Outflows of Resources</b>			
Pensions, <i>Net of Accumulated Amortization</i>	690,584	-	690,584
OPEB, <i>Net of Accumulated Amortization</i>	10,643	-	10,643
Total Deferred Outflows of Resources	<u>701,227</u>	<u>-</u>	<u>701,227</u>
<b>Liabilities</b>			
Accounts Payable	15,800	61	15,861
Accrued Liabilities	4,161	-	4,161
Accrued Salaries and Benefits	40,890	-	40,890
Unearned Revenues	41,820	-	41,820
Noncurrent Liabilities			
Due in More Than One Year	-	500,000	500,000
Net Pension Liability	1,778,096	-	1,778,096
Net OPEB Liability	88,805	-	88,805
Total Liabilities	<u>1,969,572</u>	<u>500,061</u>	<u>2,469,633</u>
<b>Deferred Inflows of Resources</b>			
Pensions, <i>Net of Accumulated Amortization</i>	1,383,954	-	1,383,954
OPEB, <i>Net of Accumulated Amortization</i>	793	-	793
Total Deferred Inflows of Resources	<u>1,384,747</u>	<u>-</u>	<u>1,384,747</u>
<b>Net Position</b>			
Net Investment in Capital Assets	26,026	101,346	127,372
Restricted for Emergencies	29,000	-	29,000
Unrestricted	(2,379,259)	1,009	(2,378,250)
Total Net Position	<u>\$ (2,324,233)</u>	<u>\$ 102,355</u>	<u>\$ (2,221,878)</u>

**Salida Montessori Charter School**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>						
<i>Governmental Activities</i>						
Instruction	\$ 858,057	\$ 253,664	\$ 85,018	\$ (519,375)	\$ -	\$ (519,375)
Supporting Services	<u>388,728</u>	<u>2,600</u>	<u>1,456</u>	<u>(384,672)</u>	<u>-</u>	<u>(384,672)</u>
Total Governmental Activities	<u>1,246,785</u>	<u>256,264</u>	<u>86,474</u>	<u>(904,047)</u>	<u>-</u>	<u>(904,047)</u>
<i>Business-Type Activities</i>						
Building Corporation	<u>40,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,842)</u>	<u>(40,842)</u>
Total Primary Government	<u>\$ 1,287,627</u>	<u>\$ 256,264</u>	<u>\$ 86,474</u>	<u>(904,047)</u>	<u>(40,842)</u>	<u>(944,889)</u>
<b>General Revenues</b>						
Per Pupil Revenue				650,629	-	650,629
At-Risk Supplemental Aid				5,725	-	5,725
Additional At-Risk Funding				176	-	176
Capital Construction				24,829	-	24,829
Mill Levy Equalization				27,230	-	27,230
Grants and Contributions not Restricted to Specific Programs				2,226	-	2,226
Investment Income				44	-	44
Other				<u>2,810</u>	<u>28,000</u>	<u>30,810</u>
Total General Revenues and Transfers				<u>713,669</u>	<u>28,000</u>	<u>741,669</u>
Change in Net Position				(190,378)	(12,842)	(203,220)
<b>Net Position, Beginning of year</b>				<u>(2,133,855)</u>	<u>115,197</u>	<u>(2,018,658)</u>
<b>Net Position, End of year</b>				<u>\$ (2,324,233)</u>	<u>\$ 102,355</u>	<u>\$ (2,221,878)</u>

# Salida Montessori Charter School

Balance Sheet  
Governmental Fund  
June 30, 2019

	<u>General</u>
<b>Assets</b>	
Cash	\$ 287,578
Accounts Receivable	5,604
Prepaid Expenditures	<u>9,651</u>
Total Assets	<u>\$ 302,833</u>
<b>Liabilities and Fund Balance</b>	
<i>Liabilities</i>	
Accounts Payable	\$ 15,800
Accrued Liabilities	4,161
Accrued Salaries and Benefits	40,890
Unearned Revenues	<u>41,820</u>
Total Liabilities	<u>102,671</u>
<i>Fund Balance</i>	
Nonspendable Prepaid Expenditures	9,651
Restricted for Emergencies	29,000
Unrestricted, Unassigned	<u>161,511</u>
Total Fund Balance	<u>200,162</u>
Total Liabilities and Fund Balance	<u>\$ 302,833</u>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
Total Fund Balance of the Governmental Fund	\$ 200,162
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	26,026
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds:	
Net pension liability	(1,778,096)
Pension-related deferred outflows of resources	690,584
Pension-related deferred inflows of resources	(1,383,954)
Net OPEB liability	(88,805)
OPEB-related deferred outflows of resources	10,643
OPEB-related deferred inflows of resources	<u>(793)</u>
Total Net Position of Governmental Activities	<u>\$ (2,324,233)</u>

**Salida Montessori Charter School**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
For the Year Ended June 30, 2019

	General
<b>Revenues</b>	
Local Sources	\$ 959,203
State Sources	82,965
Federal Sources	27,430
Total Revenues	1,069,598
<b>Expenditures</b>	
Instruction	668,574
Supporting Services	338,514
Total Expenditures	1,007,088
<b>Net Change in Fund Balance</b>	62,510
<b>Fund Balance, <i>Beginning of year</i></b>	137,652
<b>Fund Balance, <i>End of year</i></b>	\$ 200,162

## Salida Montessori Charter School

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities For the Year Ended June 30, 2019

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

Net Change in Fund Balance of the Governmental Fund	\$ 62,510
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(5,766)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following:	
Net pension liability	1,971,097
Pension-related deferred outflows of resources	(993,877)
Pension-related deferred inflows of resources	(1,221,610)
Net OPEB liability	(3,188)
OPEB-related deferred outflows of resources	(183)
OPEB-related deferred inflows of resources	<u>639</u>
Change in Net Position of Governmental Activities	<u>\$ (190,378)</u>

**Salida Montessori Charter School**  
Statement of Net Position  
Proprietary Fund  
June 30, 2019

	<u>Building Corporation</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash	\$ <u>1,070</u>
Total Current Assets	<u>1,070</u>
<i>Noncurrent Assets</i>	
Capital Assets, <i>Not Being Depreciated</i>	238,129
Capital Assets, <i>Net of Accumulated Depreciation</i>	<u>363,217</u>
Total Noncurrent Assets	<u>601,346</u>
Total Assets	<u>602,416</u>
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	61
<i>Noncurrent Liabilities</i>	
Loan Payable	<u>500,000</u>
Total Liabilities	<u>500,061</u>
<b>Net Position</b>	
Net Investment in Capital Assets	101,346
Unrestricted	<u>1,009</u>
Total Net Position	<u>\$ <u>102,355</u></u>

**Salida Montessori Charter School**  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Fund  
For the Year Ended June 30, 2019

	Building Corporation
<b>Operating Revenues</b>	
Rental Income	\$ <u>28,000</u>
<b>Operating Expenses</b>	
Purchased Services	3,918
Depreciation	11,924
Debt Service	
Interest and Fiscal Charges	<u>25,000</u>
Total Operating Expenses	<u>40,842</u>
<b>Change in Net Position</b>	(12,842)
<b>Net Position, <i>Beginning of year</i></b>	<u>115,197</u>
<b>Net Position, <i>End of year</i></b>	\$ <u><u>102,355</u></u>

**Salida Montessori Charter School**  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2019

	Building Corporation
<b>Cash Flows From Operating Activities</b>	
Rental Payments Received	\$ 28,000
Payments to Vendors	(3,857)
Loan Interest and Fees Paid	<u>(25,000)</u>
<b>Net Increase in Cash</b>	(857)
<b>Cash, Beginning of year</b>	<u>1,927</u>
<b>Cash, End of year</b>	<u><u>\$ 1,070</u></u>
<b>Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities</b>	
Net Operating Loss	\$ (12,842)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities	
Depreciation Expense	11,924
Change in Accounts Payable	<u>61</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ (857)</u></u>

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### **Note 1: Summary of Significant Accounting Policies**

The Salida Montessori Charter School (the School) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school in Salida, Colorado. The School entered into a contract with the Colorado Charter School Institute (the Institute) to authorize the School. The current contract expires on June 30, 2021. The School began operations in the Fall of 2015.

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

#### **Reporting Entity**

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

The School includes the Salida Montessori Charter School Building Corporation (the Corporation) within its reporting entity. The Corporation was organized exclusively for charitable and educational purposes, specifically holding title to real and/or personal property for, and making the same available for use by, the School, and to otherwise provide a public building, facilities, and equipment for the School. The Corporation is blended into the School's financial statements as an enterprise fund, and does not issue separate financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **Government-wide and Fund Financial Statements** (Continued)

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

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

The School reports one major proprietary fund, as follows:

*Building Corporation* - This fund is used to account for the financial activities of the Corporation, including facilities acquisition and construction, and the related debt service.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **Assets, Liabilities and Net Position/Fund Balance**

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

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings	20 - 40 years
Equipment	5 - 10 years

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

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

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

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Issuance costs are reported as current expenses or expenditures.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### **Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

*Postemployment Benefits Other Than Pensions (OPEB)* - The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position, and additions to and deductions from the HCTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the HCTF. For this purpose, the HCTF recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

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

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

#### **Risk Management**

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

#### **Subsequent Events**

We have evaluated subsequent events through October 14, 2019, the date the financial statements were available to be issued.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 2: Deposits and Investments

#### Deposits

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

#### Investments

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

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

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

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

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

The School had no investments at June 30, 2019.

**Salida Montessori Charter School**  
Notes to Financial Statements  
June 30, 2019

**Note 3: Capital Assets**

Capital asset activity for the year ended June 30, 2019, is summarized below.

	<u>Balance 6/30/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/19</u>
<b>Governmental Activities</b>				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$ 40,572	\$ -	\$ -	\$ 40,572
Accumulated Depreciation	<u>(8,780)</u>	<u>(5,766)</u>	<u>-</u>	<u>(14,546)</u>
Governmental Activities Capital Assets, <i>net</i>	<u>\$ 31,792</u>	<u>\$ (5,766)</u>	<u>\$ -</u>	<u>\$ 26,026</u>
<b>Business-Type Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 238,129	\$ -	\$ -	\$ 238,129
<i>Capital Assets, Being Depreciated</i>				
Buildings	378,619	-	-	378,619
Accumulated Depreciation	<u>(3,478)</u>	<u>(11,924)</u>	<u>-</u>	<u>(15,402)</u>
Total Capital Assets, <i>Being Depreciated, net</i>	<u>375,141</u>	<u>(11,924)</u>	<u>-</u>	<u>363,217</u>
Business-Type Activities Capital Assets, <i>net</i>	<u>\$ 613,270</u>	<u>\$ (11,924)</u>	<u>\$ -</u>	<u>\$ 601,346</u>

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

Instruction	\$ 2,348
Supporting Services	<u>3,418</u>
Total	<u>\$ 5,766</u>

**Note 4: Long-Term Debt**

Following is a summary of long-term debt transactions for the year ended June 30, 2018.

	<u>Balance 6/30/18</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/19</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
2018 Loan	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000

On March 13, 2018, the Corporation obtained a loan from High Country Bank in the amount of \$500,000. Loan proceeds were used to purchase property intended for future construction of education facilities for the School. Interest accrues on the outstanding balance of the loan at 5% per annum. Interest-only payments are due monthly. All principal and any unpaid interest is due in full on April 1, 2020.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan

#### General Information

*Plan Description* - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by (PERA). All employees of the School participate in the SDTF. 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 financial report (CAFR) that includes information on the SDTF that may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

As of December 31, 2018, retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, retirees under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5% or the average consumer price index for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1 percent based on the parameters specified C.R.S. § 24-51-413.

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

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

#### General Information (Continued)

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

*Contributions* - The School, eligible employees and the State are required to contribute to the SDTF at a rate set by Colorado statute. These contribution requirements are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. The contribution rate for eligible employees is 8% of covered salaries during the period of July 1, 2018 through June 30, 2019. The School's contribution rate for calendar years 2019 and 2018 was 20.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SDTF. The School's contributions to the SDTF for the year ended June 30, 2019, were \$109,579, equal to the required contributions.

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

At June 30, 2019, the School reported a net pension liability of \$1,778,096, representing its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the School were as follows:

School Proportionate share of net pension liability	\$ 2,021,229
The State's proportionate share of net pension liability as a nonemployer contributing entity associated with the School	<u>(243,133)</u>
Proportionate share of the net pension liability	<u>\$ 1,778,096</u>

The net pension liability was measured at December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total pension liability to December 31, 2018.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2018, relative to the contributions of all participating employers. At December 31, 2018, the School's proportion was 0.0100417386%, which was a decrease of 0.0015525868% from its proportion measured at December 31, 2017.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

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

The Colorado General Assembly passed significant pension reform 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*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SDTF are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employer contribution rates for the SDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases 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.

During the year ended June 30, 2019, the direct distribution for the SDTF was \$126,505,000.

For the year ended June 30, 2019, the School recognized pension expense of \$244,970 which included \$1,249 of support from the state as a nonemployer contributing entity. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 60,315	\$ -
Changes of assumptions and other inputs	331,889	1,105,784
Net difference between projected and actual earnings on plan investments	96,918	-
Changes in proportion	140,583	278,170
Contributions subsequent to the measurement date	60,879	-
Total	\$ 690,584	\$ 1,383,954

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

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

School contributions subsequent to the measurement date of \$60,879 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>		
2020	\$	(63,493)
2021		(436,866)
2022		(306,906)
2023		<u>53,016</u>
 Total	 \$	 <u>(754,249)</u>

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2017, determined the total pension liability using the following actuarial assumptions and other inputs.

Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate <sup>1</sup>	4.78%
Post-retirement benefit increases:	
Hired prior to 1/1/2007	0% through 2019 and 1.5% compounded annually thereafter
Hired after 12/31/2006	ad hoc

<sup>1</sup>The discount rate reflected in the roll-forward calculation of the total pension liability to the measurement date was 7.25%.

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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments, 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.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

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

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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. The significant changes affecting the plan included decreasing the investment rate of return assumption from 7.5% per year, compounded annually, net of investment expenses, to 7.25%, and updating mortality assumptions based on RP-2014 mortality tables.

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 SDTF, 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, as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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	<u>100.00%</u>	

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

#### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (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 7.25%. 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 member contribution rates in effect for each year, including the scheduled increases in SB 18-200. 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 for each year, including the scheduled increase in SB 18-200. Employer contributions also include the 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.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process 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. 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 middle of the year.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 5: Defined Benefit Pension Plan (Continued)

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

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 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 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.78 percent, 2.47 percent lower 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 School's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 2,260,545	\$ 1,778,096	\$ 1,373,240

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

### Note 6: Postemployment Healthcare Benefits

#### **General Information**

*Plan Description* - All employees of the School are eligible to receive postemployment benefits other than pensions (OPEB) through the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the HCTF. That report may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 6: Postemployment Healthcare Benefits (Continued)

#### **General Information** (Continued)

*Benefits Provided* - The HCTF provides a healthcare premium subsidy to eligible benefit recipients and retirees who choose to enroll. Eligibility to enroll is voluntary and includes benefit recipients, their eligible dependents and surviving spouses, among others. Eligible benefit recipients may enroll in the HCTF upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period. The health care premium subsidy is based on the benefit structure under which the member retires and the member's years of service credit.

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, and \$115 per month for benefit recipients who are over 65 years of age or who are under 65 years of age and entitled to Medicare. An additional subsidy is provided if the benefit recipient has not participated in Social Security and is not otherwise eligible for Medicare Part A. The maximum subsidy is based on 20 or more years of service. The subsidy is reduced for each year of service less than 20 years. The benefit recipient pays the remaining portion of the premium not covered by the subsidy.

*Contributions* - As established by Title 24, Article 51, Section 208 of the CRS, 1.02% of the School's contributions to the School Division Trust Fund (SDTF) (see Note 5) is apportioned to the HCTF. No employee contributions are required. These contribution requirements are established and may be amended by the State Legislature. The School's apportionment to the HCTF for the year ended June 30, 2019, was \$5,843, equal to the required amount.

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

At June 30, 2019, the School reported a net OPEB liability of \$88,805, representing its proportionate share of the net OPEB liability of the HCTF. The net OPEB liability was measured at December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2018.

The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2018, relative to the contributions of all participating employers. At December 31, 2018, the School's proportion was 0.0065271818%, which was a decrease of 0.0000606675% from its proportion measured at December 31, 2017.

## Salida Montessori Charter School

### Notes to Financial Statements

June 30, 2019

#### Note 6: Postemployment Healthcare Benefits (Continued)

##### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended June 30, 2019, the School recognized OPEB expense of \$8,593. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 322	\$ 135
Changes of assumptions and other inputs	623	-
Net difference between projected and actual earnings on plan investments	511	-
Changes in proportion	5,946	658
Contributions subsequent to the measurement date	3,241	-
 Total	 \$ 10,643	 \$ 793

School contributions subsequent to the measurement date of \$3,241 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ended June 30,</u>		
2020		\$ 1,538
2021		1,538
2022		1,538
2023		1,893
2024		103
Thereafter		(1)
 Total		 \$ 6,609

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2017, determined the total OPEB liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### Note 6: Postemployment Healthcare Benefits (Continued)

#### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

Price inflation	2.4%
Real wage growth	1.1%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates:	
Service-based premium subsidy	0.0%
Medicare plans	5.0%
Medicare Part A premiums:	
3.25% for 2018, gradually rising to 5.00% in 2025	

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. Healthy, post-retirement mortality assumptions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

Health care cost trend rates are based on published annual health care inflation surveys in conjunction with actual plan experience, building block models and heuristics developed by actuaries and administrators, and other projected trends.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, and were adopted by PERA's governing board on November 18, 2016. In addition, certain actuarial assumptions pertaining to per capita health care costs and the related trends are analyzed by PERA's actuary as needed.

The long-term expected rate of return on the HCTF investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016 and included the target allocation and best estimates of geometric real rates of return for each major asset class, as presented previously (see Note 5).

## Salida Montessori Charter School

Notes to Financial Statements

June 30, 2019

### Note 6: Postemployment Healthcare Benefits (Continued)

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

*Discount Rate* - The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate. Based on this assumption, the HCTF's fiduciary net position was projected to be available to make all projected future OPEB payments to current active and inactive employees. Therefore, the long-term expected rate of return on HCTF investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as the School's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 99,365	\$ 88,805	\$ 79,777

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates* - The following presents the School's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, ranging from 3% to 5%, as well as the School's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability	\$ 82,493	\$ 88,805	\$ 87,638

*OPEB Plan Fiduciary Net Position* - Detailed information about the HCTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

### Note 7: Interfund Transactions

During the year ended June 30, 2019, the School transferred \$117,000 to the Corporation to assist with the purchase of property.

# Salida Montessori Charter School

## Notes to Financial Statements

June 30, 2019

### **Note 8: Commitments and Contingencies**

#### **Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2019, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

#### **TABOR Amendment**

In November 1992, Colorado voters passed the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2019, the emergency reserve was reported as restricted fund balance in the General Fund, in the amount of \$29,000.

#### **Operating Leases**

In July 2016, the School entered into a one-year extension agreement to lease educational facilities. Monthly lease payments of \$2,000 commenced in August 2016. Effective July 30, 2018, the School approved a similar agreement through July 31, 2019, with monthly lease payments of \$2,200. The School has an option to extend the lease for an additional year. During the year ended June 30, 2019, the School paid \$24,000 under this agreement.

In addition, in July 2016, the School extended its agreement to lease a second location, commencing July 1, 2016. Monthly lease payments of \$2,200 plus utilities were required by the agreement. On July 1, 2018, the School extended this agreement for an additional year, including monthly lease payments of \$2,200. The School may extend the agreement for an additional year. During the year ended June 30, 2019, the School paid \$26,400 under this agreement.

## **Required Supplementary Information**

**Salida Montessori Charter School**  
 Required Supplementary Information  
 Schedule of Proportionate Share of the Net Pension Liability and Contributions  
 Public Employees' Retirement Association of Colorado School Division Trust Fund  
 June 30, 2019

	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/13</u>
<b>Proportionate Share of the Net Pension Liability</b>				
School's Proportion of the Net Pension Liability	0.0100417386%	0.0115943254%	0.0103886564%	0.0079399216%
School's Proportionate Share of the Net Pension Liability	\$ 1,778,096	\$ 3,749,193	\$ 3,093,105	\$ 1,214,355
School's Covered-Employee Payroll	\$ 552,048	\$ 534,832	\$ 466,261	\$ 173,010
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	322%	701%	663%	702%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57%	44%	43%	59%
	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/14</u>
<b>School Contributions</b>				
Statutorily Required Contribution	\$ 109,579	\$ 101,643	\$ 93,097	\$ 69,802
Contributions in Relation to the Statutorily Required Contribution	<u>(109,579)</u>	<u>(101,643)</u>	<u>(93,097)</u>	<u>(69,802)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 572,811	\$ 538,517	\$ 506,345	\$ 392,638
Contributions as a Percentage of Covered Payroll	19.13%	18.87%	18.39%	17.78%

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

**Salida Montessori Charter School**  
 Required Supplementary Information  
 Schedule of Proportionate Share of the Net OPEB Liability and Contributions  
 Public Employees' Retirement Association of Colorado Health Care Trust Fund  
 June 30, 2019

	12/31/18	12/31/17
<b>Proportionate Share of the Net OPEB Liability</b>		
School's Proportion of the Net OPEB Liability	0.0065271818%	0.0065878493%
School's Proportionate Share of the Net OPEB Liability	\$ 88,805	\$ 85,616
School's Covered Payroll	\$ 552,048	\$ 534,832
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	16%	16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	17%	18%
	6/30/19	6/30/18
<b>School Contributions</b>		
Statutorily Required Contribution	\$ 5,843	\$ 5,493
Contributions in Relation to the Statutorily Required Contribution	(5,843)	(5,493)
Contribution Deficiency (Excess)	\$ -	\$ -
School's Covered Payroll	\$ 572,811	\$ 542,410
Contributions as a Percentage of Covered Payroll	1.02%	1.01%

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

**Salida Montessori Charter School**  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<i>Local Sources</i>				
Per Pupil Revenue	\$ 676,659	\$ 676,659	\$ 650,629	\$ (26,030)
Tuition	226,505	226,505	196,298	(30,207)
Student Activities	49,452	49,452	57,366	7,914
Food Service Fees	-	-	2,600	2,600
Grants and Contributions	33,450	33,450	22,226	(11,224)
Investment Income	50	50	44	(6)
Other	5,000	5,000	2,810	(2,190)
<i>State Sources</i>				
At-Risk Supplemental Aid	2,284	2,284	5,725	3,441
Additional At-Risk Funding	-	-	176	176
Capital Construction	25,740	25,740	24,829	(911)
Mill Levy Equalization	26,941	26,941	27,230	289
Grants	38,205	38,205	52,235	14,030
<i>Federal Sources</i>				
Grants	28,492	28,492	27,430	(1,062)
<b>Total Revenues</b>	<u>1,112,778</u>	<u>1,112,778</u>	<u>1,069,598</u>	<u>(43,180)</u>
<b>Expenditures</b>				
<i>Instruction</i>				
Salaries	463,509	463,209	464,139	(930)
Employee Benefits	148,118	148,118	148,525	(407)
Purchased Services	33,208	33,208	22,711	10,497
Supplies	31,225	31,525	32,929	(1,404)
Property	3,500	3,500	-	3,500
Other	13,027	13,027	270	12,757
<b>Total Instruction</b>	<u>692,587</u>	<u>692,587</u>	<u>668,574</u>	<u>24,013</u>
<i>Supporting Services</i>				
Salaries	100,015	100,015	109,482	(9,467)
Employee Benefits	29,103	29,103	35,254	(6,151)
Purchased Services	176,363	176,363	173,455	2,908
Supplies	12,500	12,500	14,056	(1,556)
Other	7,400	7,400	6,267	1,133
<b>Total Supporting Services</b>	<u>325,381</u>	<u>325,381</u>	<u>338,514</u>	<u>(13,133)</u>
<b>Reserves</b>	<u>94,810</u>	<u>94,810</u>	<u>-</u>	<u>94,810</u>
<b>Total Expenditures</b>	<u>1,112,778</u>	<u>1,112,778</u>	<u>1,007,088</u>	<u>105,690</u>
<b>Net Change in Fund Balance</b>	-	-	62,510	62,510
<b>Fund Balance, Beginning of year</b>	<u>137,652</u>	<u>137,652</u>	<u>137,652</u>	<u>-</u>
<b>Fund Balance, End of year</b>	<u>\$ 137,652</u>	<u>\$ 137,652</u>	<u>\$ 200,162</u>	<u>\$ 62,510</u>

See the accompanying Independent Auditors' Report.

**Salida Montessori Charter School**  
Required Supplementary Information  
June 30, 2019

**Note 1: Schedule of Proportionate Share of the Net Pension Liability and Contributions**

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

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2019, the total pension liability was determined by an actuarial valuation as of December 31, 2017. The following revised economic and demographic assumptions were effective as of December 31, 2017.

- Investment rate of return assumption of 7.25% per year, compounded annually. This assumption did not change from the prior year.
- Price inflation assumption of 2.4% per year. This assumption did not change from the prior year.
- Real rate of investment return assumption decreased from 4.85% per year, net of investment expenses, to 4.78%. The rate reflected in the roll-forward calculation of the collective total pension liability to the measurement date increased from 4.78% to 7.25%.
- Wage inflation assumption of 3.5% per year. This assumption did not change from the prior year.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables.

**Note 2: Stewardship, Compliance and Accountability**

**Budgets and Budgetary Accounting**

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

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

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

All appropriations lapse at fiscal year-end.