

**MONARCH MONTESSORI OF DENVER CHARTER**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2016**

## TABLE OF CONTENTS

### PAGE

### INTRODUCTORY SECTION

Title Page

Table of Contents

### FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis i - vi

#### Basic Financial Statements

Statement of Net Position 1

Statement of Activities 2

Balance Sheet – All Governmental Funds 3

Statement of Revenues, Expenditures and Changes in Fund Balances –  
All Governmental Funds 4

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities 5

Notes to the Financial Statements 6 – 24

#### Required Supplementary Information

Budgetary Comparison Schedule – General Fund 25

Schedule of the School's Proportionate Share 26

Schedule of the School's Contributions 27

## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Monarch Montessori of Denver Charter  
Denver, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Monarch Montessori of Denver Charter (the School), component unit of the Denver Public School District, as of and for the year ended June 30, 2016, 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 each major fund of the Monarch Montessori of Denver Charter as of and for the year ended June 30, 2016, 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, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 25-27 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.

*John Luttrell & Associates, LLC*

September 14, 2016

## **Monarch Montessori of Denver Charter School Management's Discussion and Analysis**

As management of Monarch Montessori of Denver Charter School (MMDC or the School), we offer readers of Monarch Montessori of Denver Charter School's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

### **Financial Highlights**

The year ended June 30, 2016 is the fourth year of operations for MMDC. As of June 30, 2016, net position increased by \$3,574,119 to \$2,914,048. This significant increase from the school's negative beginning net position of \$(660,071) (the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68) was the result of a large capital contribution, discussed below.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$1,810,493. At the close of the fiscal year, Monarch Montessori of Denver Charter School's governmental funds reported a combined ending fund balance of \$3,226,192, an increase of \$3,140,525 from prior year. This increase is the result of an increase in student count, the facility and debt transaction that occurred mid-year, and the close monitoring of spending throughout the year.

### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The 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.

#### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all of the 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 the School is improving or deteriorating.

The statement of activities presents information showing how the 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 (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the school supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Denver Public Schools). The governmental activities of the School include instruction and supporting services.

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

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The school has two 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 the School'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 the 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.

The school adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for the governmental fund has been provided herein.

### ***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. This information is provided in pages 6-24.

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Monarch Montessori of Denver Charter School, assets exceeded liabilities resulting in a net position of \$2,914,048 in FY 2015-2016. Of the School's total net position, \$65,000 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 the school's general operating expenses.

#### Monarch Montessori of Denver Charter School's Net Position Governmental Activities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>ASSETS</b>		
Cash	\$ 385,984	\$ 14,379
Restricted Cash	3,132,739	50,067
Accounts Receivable	14,529	117,543
Prepaid Expenses	22,441	1,343
Capital Assets, Not Depreciated	1,899,517	-
Capital Assets, Net of Accum Depreciation	7,635,583	-
<b>Total Assets</b>	<b>13,090,793</b>	<b>183,332</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	695,109	331,815
<b>LIABILITIES</b>		
Accounts Payable	209,178	844
Accrued Salaries & Benefits	87,807	96,821
Accrued Interest	60,969	-
Noncurrent Liabilities		
Bonds Payable	8,815,000	-
Net Pension Liability	1,527,698	1,077,312
<b>Total Liabilities</b>	<b>10,700,652</b>	<b>1,174,977</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	171,202	241
<b>NET POSITION</b>		
Investment in Capital Assets	659,131	-
Restricted for Emergencies	65,000	58,400
Unrestricted	2,189,917	(718,471)
<b>Total Net Position</b>	<b>\$ 2,914,048</b>	<b>\$ (660,071)</b>

The largest portion of the School's assets is in capital assets, at 73% of total assets in 2016.



**Monarch Montessori of Denver Charter School's Change in Net Position  
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Charges for Services	\$ 59,626	\$ 42,656
Operating Grants and Contributions	199,526	310,957
Capital Grants and Contributions	62,038	39,564
Total Program Revenue	321,190	393,177
General Revenue:		
Per Pupil Revenue	1,810,493	1,612,173
Mill Levy Revenue	252,576	222,916
Interest	9,263	-
Total General Revenue	2,072,332	1,835,089
Special Item: Capital Contribution	4,293,512	-
<b>Total Revenue</b>	<b>6,687,034</b>	<b>2,228,266</b>
Expenses:		
Current:		
Instruction	1,353,517	1,307,600
Supporting Services	1,177,996	1,091,314
Interest and Fiscal Charges	581,402	-
<b>Total Expenses</b>	<b>3,112,915</b>	<b>2,398,914</b>
<b>Increase/(Decrease) in Net Position</b>	3,574,119	(170,648)
<b>Net Position, Beginning</b>	<b>(660,071)</b>	<b>(489,423)</b>
<b>Net Position, Ending</b>	<b>\$ 2,914,048</b>	<b>\$ (660,071)</b>

The largest portion of the School's general revenues came from per pupil funding – 76%, respectively in 2016. That calculation does not include the capital contribution from the purchase of the facility located at 4985 Peoria Street.

## **Financial Analysis of the Government's Funds**

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$325,747, an increase of \$240,080 from prior year. At the end of the current fiscal year, the first year of operation, the School's Building Corporation reported an ending fund balance of \$2,900,445. This fund records the activity of the Monarch Montessori of Denver Charter School's Building Corporation, a Colorado non-profit corporation established as a separate legal entity designed to assist the School with the 2015 purchase and improvement of the school's facility. The fund balance consists of remaining funds allocated to support future payments of the debt structure.

### **General Fund Budgetary Highlights**

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$15,791 more revenue than expected and spent \$(224,425) less than planned, when compared to the final budget. One budget amendment was made during FY 2015-2016.

### **Capital Assets & Long-Term Debt**

The School has invested in capital assets for the school's newly acquired facility, including land, as well as construction in progress. The construction includes a renovation of the existing facility as well as an expansion to serve more students. Depreciation expenses for capital assets are booked under the Supporting expenses of the School's operations.

The School has long-term refunding and improvement bonds totaling \$8,815,000 used to purchase and improve the school's facility in this fiscal year. The school is required to make regular lease payments to the Building Corporation for the use of the building. Additional information related to long-term debt can be found in Note 6 to the financial statements.

## **Economic Factors and Next Year's Budget**

The primary factor driving the budget for Monarch Montessori of Denver Charter School is student enrollment. Enrollment for the 2015-2016 school year was 240.00 funded students. This information was analyzed as part of the 2016-2017 budget which is projecting a 258 funded student count.

## **Requests for Information**

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

Monarch Montessori of Denver Charter School  
4985 Peoria Street  
Denver, CO 80239

## **BASIC FINANCIAL STATEMENTS**

MONARCH MONTESSORI OF DENVER CHARTER

STATEMENT OF NET POSITION

As of June 30, 2016

	Governmental Activities	
	2016	2015
ASSETS		
Cash	\$ 385,984	\$ 14,379
Restricted Cash	3,132,739	50,067
Accounts Receivable	14,529	117,543
Prepaid Expenses	22,441	1,343
Capital Assets, Not Depreciated	1,899,517	-
Capital Assets, Depreciated, Net of Accumulated Depreciation	7,635,583	-
<b>TOTAL ASSETS</b>	<b>13,090,793</b>	<b>183,332</b>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	695,109	331,815
LIABILITIES		
Accounts Payable	209,178	844
Accrued Salaries and Benefits	87,807	96,821
Accrued Interest	60,969	-
Noncurrent Liabilities		
Bonds Payable	8,815,000	-
Net Pension Liability	1,527,698	1,077,312
<b>TOTAL LIABILITIES</b>	<b>10,700,652</b>	<b>1,174,977</b>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	171,202	241
NET POSITION		
Net Investment in Capital Assets	659,131	-
Restricted for Emergencies	65,000	58,400
Unrestricted	2,189,917	(718,471)
<b>TOTAL NET POSITION</b>	<b>\$ 2,914,048</b>	<b>\$ (660,071)</b>

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

MONARCH MONTESSORI OF DENVER CHARTER

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Change In Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instructional	\$ 1,353,517	\$ 59,626	\$ 167,157	\$ -	\$ (1,126,734)	\$ (1,000,762)
Supporting Services	1,177,996	-	32,369	62,038	(1,083,589)	(1,004,975)
Interest and Fiscal Charges	581,402	-	-	-	(581,402)	-
Total Governmental Activities	<u>\$ 3,112,915</u>	<u>\$ 59,626</u>	<u>\$ 199,526</u>	<u>\$ 62,038</u>	(2,791,725)	(2,005,737)
GENERAL REVENUES						
					1,810,493	1,612,173
					252,576	222,916
					9,263	-
SPECIAL ITEM						
					4,293,512	-
TOTAL GENERAL REVENUES						
					<u>6,365,844</u>	<u>1,835,089</u>
CHANGE IN NET POSITION						
					3,574,119	(170,648)
NET POSITION, Beginning						
					<u>(660,071)</u>	<u>(489,423)</u>
NET POSITION, Ending						
					<u>\$ 2,914,048</u>	<u>\$ (660,071)</u>

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

MONARCH MONTESSORI OF DENVER CHARTER

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
<b>ASSETS</b>				
Cash	\$ 385,984	\$ -	\$ 385,984	\$ 14,379
Restricted Cash and Investments	-	3,132,739	3,132,739	50,067
Accounts Receivable	14,529	-	14,529	117,543
Prepaid Expenses	22,441	-	22,441	1,343
<b>TOTAL ASSETS</b>	<b>\$ 422,954</b>	<b>\$ 3,132,739</b>	<b>\$ 3,555,693</b>	<b>\$ 183,332</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 9,400	\$ 199,778	\$ 209,178	\$ 844
Accrued Salaries and Benefits	87,807	-	87,807	96,821
Accrued Interest	-	32,516	32,516	-
<b>TOTAL LIABILITIES</b>	<b>97,207</b>	<b>232,294</b>	<b>329,501</b>	<b>97,665</b>
<b>FUND BALANCES</b>				
Nonspendable	22,441	-	22,441	1,343
Restricted for Emergencies	65,000	-	65,000	58,400
Restricted for Capital Outlay	-	2,344,368	2,344,368	-
Restricted for Debt Service	-	556,077	556,077	-
Unassigned	238,306	-	238,306	25,924
<b>TOTAL FUND BALANCES</b>	<b>325,747</b>	<b>2,900,445</b>	<b>3,226,192</b>	<b>85,667</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 422,954</b>	<b>\$ 3,132,739</b>		

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

9,535,100 -

Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This includes bonds payable of (\$8,815,000), accrued interest of (\$28,453), net pension liability of (\$1,527,698), deferred outflows related to pensions of \$695,109, and deferred inflows related to pensions of (\$171,202).

(9,847,244) (745,738)

Net position of governmental activities

\$ 2,914,048 \$ (660,071)

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

MONARCH MONTESSORI OF DENVER CHARTER

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
REVENUES				
Local Sources	\$ 2,155,064	\$ 9,263	\$ 2,164,327	\$ 1,947,840
State and Federal Sources	229,195	-	229,195	280,426
TOTAL REVENUES	<u>2,384,259</u>	<u>9,263</u>	<u>2,393,522</u>	<u>2,228,266</u>
EXPENDITURES				
Current				
Instruction	1,208,119	-	1,208,119	1,172,536
Supporting Services	935,924	9,664,517	10,600,441	1,057,548
Bond Issuance Costs	-	325,333	325,333	-
Debt Service				
Interest	-	227,616	227,616	-
TOTAL EXPENDITURES	<u>2,144,043</u>	<u>10,217,466</u>	<u>12,361,509</u>	<u>2,230,084</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>240,216</u>	<u>(10,208,203)</u>	<u>(9,967,987)</u>	<u>(1,818)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	136	136	-
Transfers Out	(136)	-	(136)	-
Proceeds from the Issuance of Debt	-	8,815,000	8,815,000	-
Capital Contribution	-	4,293,512	4,293,512	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(136)</u>	<u>13,108,648</u>	<u>13,108,512</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	240,080	2,900,445	3,140,525	(1,818)
FUND BALANCES, Beginning	<u>85,667</u>	<u>-</u>	<u>85,667</u>	<u>87,485</u>
FUND BALANCES, Ending	<u>\$ 325,747</u>	<u>\$ 2,900,445</u>	<u>\$ 3,226,192</u>	<u>\$ 85,667</u>

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



MONARCH MONTESSORI OF DENVER CHARTER

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 3,140,525
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$9,664,217 exceeded depreciation expense (\$129,417) for the current period.	9,535,100
Bond proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(8,815,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. These include change in accrued interest in the amount of (\$28,453).	(28,453)
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds those amounts are capitalized and amortized.	<u>(258,053)</u>
Change in net position of governmental activities	<u><u>\$ 3,574,119</u></u>

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

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Monarch Montessori of Denver Charter (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado. The School began classes in the fall of 2012.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

**Reporting Entity**

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

The School includes the Monarch Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing of the School’s facilities. The Building Corporation is blended into the School’s financial statements as a special revenue fund. Separate financial statements are not available for this entity. The School is a component unit of the Denver Public School District.

**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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

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

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Government-Wide and Fund Financial Statements** (Continued)

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

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

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

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 period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, 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.

Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for 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 used to account for all financial resources except those required to be accounted for in another fund.

*Building Corporation* – This fund is used to account for the activities of the Building Corporation.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

*Receivables* – Receivables are reported at their gross value, and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.

*Capital Assets* – Capital assets, which include property and equipment, are reported in the governmental activities column 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 School has no capital assets as of June 30, 2016.

*Net Position*– The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- Restricted Net Position are liquid assets, which have third party limitations on their use.
- Unrestricted Net Position represent assets that do not have any third party limitation on their use. While School management may have categorized and segmented portions for various purposes, the Board of Directors has the unrestricted authority to revisit or alter these managerial decisions.

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School classifies Prepaid Expenses as nonspendable as these items are not expected to be converted to cash within the next year.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

**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 coverage for these risks of loss. Settled claims have not exceeded this insurance in the last three years.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

A budget is adopted for the General Fund 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. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

A reconciliation of the cash and investment components on the balance sheet to the cash and investments categories in this footnote are as follows:

Deposits	\$ 385,984
Investments	<u>3,132,739</u>
Total Cash and Investments	<b><u>\$ 3,518,723</u></b>

The above amounts are classified in the statement of net position as follows:

Cash and Investments	\$ 385,984
Restricted Cash and Investments	<u>3,132,739</u>
Total	<b><u>\$ 3,518,723</u></b>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Deposits (Continued)**

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$385,984. The bank balances with the financial institutions were \$437,362. Of this amount, \$250,000 was covered by federal depository insurance and \$187,362 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Investments**

Interest Rate Risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

The School had invested \$3,132,739 in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds and is registered with the State Securities Commissioner. The Fund operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. The Fund is rated AAAM by Standard and Poor's.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3: CASH AND INVESTMENTS** (Continued)

**Investments** (Continued)

The School has no policy for managing credit risk or interest rate risk.

**Restricted Cash and Investments**

Cash and investments in the amount of \$3,132,739 are restricted in the Building Corporation Fund for construction expenses and debt service payments.

**NOTE 4: 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 nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$87,807 in the General Fund.

**NOTE 5: CAPITAL ASSETS**

Capital Assets activity for the year ended June 30, 2016 is summarized below.

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Land	\$ -	\$ 1,135,000	\$ -	\$ 1,135,000
Construction in Progress	-	<u>764,517</u>	-	<u>764,517</u>
Total Capital Assets, Not Depreciated	-	<u>1,899,517</u>	-	<u>1,899,517</u>
Capital Assets, Depreciated				
Buildings	-	<u>7,765,000</u>	-	<u>7,765,000</u>
Accumulated Depreciation				
Buildings	-	<u>129,417</u>	-	<u>129,417</u>
Total Capital Assets, Depreciated, Net	-	<u>7,635,583</u>	-	<u>7,635,583</u>
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 9,535,000</u>	<u>\$ -</u>	<u>\$ 9,535,000</u>

Depreciation expense is charged to the Supporting Services Activity.



MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6: LONG-TERM DEBT**

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2016:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due In</u> <u>One Year</u>
2015 Revenue Bonds	\$ _____ -	8,815,000	_____ -	8,815,000	\$ _____ -
<b>Total</b>	<b>\$ _____ -</b>	<b>\$ 8,815,000</b>	<b>\$ _____ -</b>	<b>\$ 8,815,000</b>	<b>\$ _____ -</b>

**Series 2015 Charter School Refunding and Improvement Bonds**

In December 2015, the Colorado Educational and Cultural Facilities Authority issued \$8,815,000 Charter School Refunding and Improvement Bonds, Series 2015. Proceeds from the bonds were used to purchase the School's building and provide funding for improvements. The School is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 5.50% to 7.00% per year. The bond matures in May, 2020.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 487,750	\$ 487,750
2018	120,000	487,750	607,750
2019	130,000	479,350	609,350
2020	8,565,000	471,075	9,036,075
<b>Totals</b>	<b>\$ 8,815,000</b>	<b>\$ 1,925,925</b>	<b>\$ 10,740,925</b>

**NOTE 7: INTERFUND TRANSFERS**

Interfund transfers at June 30, 2016 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Building Corporation	General Fund	<b>\$ 136</b>

The General Fund transferred funds the Building Corporation for rent payments on the School building.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

*Pensions.* The School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-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 DPS Division 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.

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division)—a single-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](http://www.copera.org/investments/pera-financial-reports).

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

The lifetime retirement benefit for all eligible retiring employees under the 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.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8:** **DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (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 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year.

Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the DPS Division.

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.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

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

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

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate	10.15%	10.15%
Amount of Employer Contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)	(1.02%)
PCOP Offset as specified in C.R.S. § 24-51-412	(15.97%)	(15.54%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	4.00%	4.50%
Total Employer Contribution Rate to the DPS Division	1.36%	2.59%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from School were \$37,112 for the year ended June 30, 2016.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**(Continued)

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

At June 30, 2016, the School reported a liability of \$1,527,698 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School proportion of the net pension liability was based on the School's contributions to the DPS Division for the calendar year 2015 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2015, the School's proportion was 0.18779%, which was an increase of 0.01530% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$295,164. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 68,789	\$ 199
Changes of assumptions or other inputs	N/A	\$ 171,003
Net difference between projected and actual earnings on pension plan investments	\$ 344,734	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 258,691	N/A
Contributions subsequent to the measurement date	\$ 22,895	N/A
Total	\$ 695,109	\$ 171,202

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN** (Continued)

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

\$22,895 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2017	\$ 144,259
2018	\$ 144,259
2019	\$ 148,413
2020	\$ 64,143
2021	(\$62)

*Actuarial assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN** (Continued)

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

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
  - Valuation of the full survivor benefit without any reduction for possible remarriage.
  - Reflection of the employer match on separation benefits for all eligible years.
  - Reflection of one year of service eligibility for survivor annuity benefit.
  - Refinement of the 18 month annual increase timing.
  - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
  
- The following methodology changes were made:
  - Recognition of merit salary increases in the first projection year.
  - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
  - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
  - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN** (Continued)

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
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 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 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 3.90%.
- 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.



MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**(Continued)

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

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

Based on the above actuarial cost method and assumptions, the DPS Division'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 on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN** (Continued)

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

*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 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$2,391,394	\$1,527,698	\$811,125

*Pension plan fiduciary net position.* Detailed information about the DPS Division'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](http://www.copera.org/investments/pera-financial-reports).

**Other Post-Employment Benefits**

**Denver Public Schools Health Care Trust Fund**

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

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**(Continued)

**Other Post-Employment Benefits** (Continued)

*Funding Policy* – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the DPS HCTF is established under Title 24, Article 51, Section 208(1)(f.5) of the C.R.S., as amended. For the years ending June 30, 2016, 2015 and 2014 the School's contributions to the DPS HCTF were \$12,562, \$11,628 and \$9,042, respectively, equal to the required contributions for each year.

**Taxable Pension Certificates of Participation (PCOPs)**

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The School contributed 9.95%, 9.84% and 10.8%, of covered payroll for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2016, 2015 and 2014 the School made contributions totaling \$159,683, \$111,560 and \$95,688, respectively, to the District towards its PCOPs obligation.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

**Operating Lease Agreement**

The School entered into a lease agreement with the Northeast School Building Corporation on August 1, 2013 for use of a building. This agreement is cancellable upon the School not appropriating revenues sufficient to pay all base rentals. The School is required to inform the Building Corporation as of June 1 each fiscal year if they are renewing the lease. This lease was terminated in December 2015, when the School purchased the building from the Northeast School Building Corporation.

Total rent expense for the year ended June 30, 2016 for this agreement was \$91,367.

MONARCH MONTESSORI OF DENVER CHARTER

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 9:** *COMMITMENTS AND CONTINGENCIES* (Continued)

**Claims 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. As of June 30, 2016, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment.

As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2016, the reserve of \$65,000 was recorded as a restriction of fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

MONARCH MONTESSORI OF DENVER CHARTER

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended June 30, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 1,829,528	\$ 1,797,686	\$ 1,810,493	\$ 12,807	\$ 1,612,173
Mill Levy Override	235,248	252,576	252,576	-	222,916
Tuition and Fees	35,820	33,101	59,626	26,525	42,656
Grants and Donations	19,000	60,461	32,369	(28,092)	70,095
State and Federal Sources					
Grants and Donations	196,817	224,644	229,195	4,551	280,426
<b>TOTAL REVENUES</b>	<b>2,316,413</b>	<b>2,368,468</b>	<b>2,384,259</b>	<b>15,791</b>	<b>2,228,266</b>
<b>EXPENDITURES</b>					
Salaries	1,213,900	1,236,285	1,172,603	63,682	1,107,119
Employee Benefits	371,547	302,874	279,089	23,785	263,151
Purchased Services	579,727	652,907	578,353	74,554	627,310
Supplies and Materials	84,500	80,451	74,045	6,406	161,507
Property	27,596	42,551	27,903	14,648	70,997
Other	39,143	53,400	12,050	41,350	-
<b>TOTAL EXPENDITURES</b>	<b>2,316,413</b>	<b>2,368,468</b>	<b>2,144,043</b>	<b>224,425</b>	<b>2,230,084</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>240,216</b>	<b>240,216</b>	<b>(1,818)</b>
<b>OTHER FINANCING USES</b>					
Transfers Out	-	-	(136)	(136)	-
<b>CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>240,080</b>	<b>240,080</b>	<b>(1,818)</b>
FUND BALANCE, Beginning	73,911	85,667	85,667	-	87,485
FUND BALANCE, Ending	<u>\$ 73,911</u>	<u>\$ 85,667</u>	<u>\$ 325,747</u>	<u>\$ 240,080</u>	<u>\$ 85,667</u>

See the accompanying independent auditors' report.

MONARCH MONTESSORI OF DENVER CHARTER  
 SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
 DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,

	2013	2014	2015
School's proportionate share of the Net Pension Liability	0.179%	0.172%	0.188%
School's proportionate share of the Net Pension Liability	\$ 596,186	\$ 1,077,312	\$ 1,527,698
School's covered-employee payroll	\$ 625,164	\$ 1,015,802	\$ 1,188,334
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	95.4%	106.1%	128.6%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%

See the accompanying independent auditors' report.

MONARCH MONTESSORI OF DENVER CHARTER  
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
 DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016
Statutorily required contributions	\$ 42,226	\$ 36,761	\$ 37,112
Contributions in relation to the Statutorily required contributions	42,226	36,761	37,112
Contribution deficiency (excess)	\$ -	\$ -	\$ -
School's covered-employee payroll	\$ 886,475	\$ 1,130,854	\$ 1,231,565
Contributions as a percentage of covered-employee payroll	4.76%	3.25%	3.01%

See the accompanying independent auditors' report.