DCS MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2017

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S&C Swanhorst & Company LLC
Certified Public Accountants

Board of Directors
DCS Montessori Charter School
Castle Pines, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the DCS Montessori Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the DCS 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 DCS Montessori Charter School as of June 30, 2017, 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.

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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.

October 30, 2017

As management of the **DCS Montessori Charter School (the School)**, we offer readers of the DCS Montessori Charter School financial statements this narrative overview and analysis of the financial activities of the DCS Montessori Charter School for the fiscal year ended June 30, 2017.

Financial Highlights

The combined liabilities and deferred inflows of the DCS Montessori Charter School and the Montessori Educational Foundation of Douglas County exceeded its combined assets and deferred outflows at the close of the most recent fiscal year by $8,017,847, a decrease of $2,319,376 which is a further deterioration in the negative net position over the prior year. The negative net position is primarily due to the implementation of the Governmental Accounting Standards Board Statement (GASB) 68, a pension related accounting standard. The School is now required to recognize its proportionate share of the unfunded pension obligation of the Public Employees' Retirement Association's School Division Trust Fund, which significantly worsened over the prior year with the use of more conservative actuarial assumptions.

The DCS Montessori Charter School general fund ending balance decreased $27,853 to $1,087,647. This decrease represents .55% of annual General Fund revenue and 2.5% of beginning fund balance. The decrease was primarily due to capital improvements made by the School and subsequently contributed to the Foundation.

Overview of Financial Statements

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

Government-wide Financial Statements

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

The statement of net position presents information on all the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the assets/deferred outflows of resources and liabilities/deferred inflows of resources 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 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 revenues and earned but unpaid salaries and benefits).

The government-wide statement of activities distinguishes functions/programs of the DCS Montessori Charter School supported primarily by State Per-Pupil Revenue (PPR) or property taxes passed through from the Douglas County School District RE-1. The governmental activities of the DCS Montessori Charter School include instruction and supporting services expense.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements

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

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, in addition to 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The DCS Montessori Charter School maintains one individual governmental fund, the General Fund.

The DCS Montessori Charter School Board approves an annual adopted and revised budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget and shown on page 23.

Proprietary Fund The Proprietary (the Foundation) fund shows a negative net position of ($69,384). We can attribute this negative net position to the unfunded depreciation expense and the debt life cycle of a mortgage (more interest expense in early years). The overall net position of the Foundation improved again in FY17. The increase in net position of $196,765 was primarily due to contributed capital of $195,400 by the School. The Foundation's overall deficit net position improved by 74 percent to a negative ($69,384).

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 8-21.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. In the case of the DCS Montessori Charter School, liabilities and deferred inflows exceeded assets and deferred outflows by $8,017,847 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of $14,972,704, representing its proportionate share of the plan's net pension liability.

DCS Montessori Charter School and Foundation Net position at June 30, 2017 and 2016 respectively:

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2016	Business-Type Activities June 30, 2017	Business-Type Activities June 30, 2016
Cash and Investments	1,329,978	1,349,291	1,224,754	1,250,833
Other Assets	9,576	18,853	25,517	20,739
Capital Assets	29,431	36,022	6,830,384	6,851,031
Total Assets	1,368,985	1,404,166	8,080,655	8,122,603
Deferred Outflows of Resources	6,001,683	1,001,535	417,816	445,671
Current Liabilities	251,907	252,644	174,079	175,459
Other Liabilities	0	0	8,393,776	8,658,964
Net Pension Liability	14,972,704	7,409,088	0	0
Total Liabilities	15,224,611	7,661,732	8,567,855	8,834,423
Deferred Inflows of Resources	94,520	176,291	0	0
Net Position				
Net Inv. in Capital Assets	29,431	36,022	(1,145,576)	(1,362,262)
Restricted	150,000	152,000	958,393	960,999
Unrestricted	(8,127,894)	(5,620,344)	117,799	135,114
Total Net Position	(7,948,463)	(5,432,322)	(69,384)	(266,149)

DCS Montessori Foundation's restricted cash (13.9% of Foundation's Assets) resides with the trustee. The Foundation's capital assets represent 84.5% of its Total Assets. The remaining Foundation assets represent inventory, prepaid expenses and accounts receivable. The School has set aside the required reserves and is Tabor compliant. 97.15% of the School's assets represent cash and investments. The School's liabilities include the net pension liability (98.3%), unearned revenue (.6%), and accounts payable/accrued salaries and benefits (1%).

DCS Montessori Charter School and Foundation Change in Net Position
For the Year Ended June 30, 2017 and 2016 respectively:

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2016	Business-Type Activities June 30, 2017	Business-Type Activities June 30, 2016
Program Revenue:				
Charges for Services	$ 1,707,067	$ 1,689,233	$0	$0
Operating Grants and Contributions	22,167	18,173	0	0
Total Program Revenue	1,729,234	1,707,406	0	0
General Revenue:				
Per Pupil Revenue	2,938,537	2,929,021	0	0
Mill Levy Revenue	225,568	229,423	0	0
Capital Construction	114,895	108,205	0	0
Interest Earnings	9,940	6,071	6,245	12,250
Grants and Contributions				
Not Restricted	8,726	21,072	228,815	272,845
Miscellaneous	9,657	12,483	0	0
Total General Revenue	3,307,323	3,306,275	235,060	285,095
Total Revenue	5,036,557	5,013,681	235,060	285,095
Expenses:				
Current:				
Instruction	4,801,115	2,848,170	0	0
Supporting Services	1,916,112	1,416,470	0	0
Building Corporation	0	0	873,766	876,931
Total Expenses	6,717,227	4,264,640	873,766	876,931
Transfers In (Out)	(835,471)	(933,496)	835,471	933,496
Increase (Dec.) in Net Position	(2,516,141)	(184,455)	196,765	341,660
Beginning Net Position	(5,432,322)	(5,247,867)	(266,149)	(607,809)
Ending Net Position	$ (7,948,463)	$ (5,432,322)	$ (69,384)	$ (266,149)

Net position, which is a very good indicator of financial performance, decreased during FY17 for the Governmental Activities/DCS Montessori Charter School by $2,516,141. The decrease was primarily due to the increase in the Net Pension liability. Net position for the Business Type Activities/Foundation increased for the same period ending June 30, 2017 by $196,765 primarily due to capital contributed by the School. On a combined basis, the net position decreased by $2,319,376.

Financial Analysis of the School's Funds

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

Governmental Funds The focus of the DCS Montessori Charter School's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the DCS Montessori Charter School's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of, or during, the fiscal year. As of June 30, 2017, the School's general fund reported an ending fund balance of $1,087,647, a decrease of 2.5% or $27,853. The primary cause for the decrease can be attributed to the green house capital improvements within the School's budget.

Foundation – Business Type Activities Net position increased primarily because of contributed capital. The increase of $196,765 in net position represents a 74% improvement bringing the negative net position to ($69,384).

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. Total FY17 expenditure and transfer appropriations for the general fund were $5,137,340 with actual expenditures and transfers out of $5,073,618 resulting in a positive variance of $63,722.

Capital Asset and Debt Administration

Capital Assets Total capital assets including land totaled $10,561,099. Total depreciation taken for the period ending June 30, 2017 was $269,625. Accumulated depreciation was $3,701,284 which resulted in net capital assets of $6,859,815. Asset additions included building improvements to the green house and furniture of $242,387.

Long-term Debt The School participates in a long-term lease agreement with the Montessori Educational Foundation of Douglas County. Annual rental payments are made to the Foundation ranging from $633,925 to $728,812. The prior debt issued for the School's facility (2002) was refunded in July of 2012 with two major purposes: 1) To lower the annual debt service and, 2) To produce funding for the new Middle School Program's expansion and capital construction needs. As part of the refunding, a Project Fund of $966,709.25 was created to support the construction of the new Middle School building. Additionally, to free-up funds for the Middle School Program's initial capital needs, the first three years of debt service was approximately $50,000 lower than the average annual debt service for future years.

The Foundation services the new debt with interest accruing at rates ranging from 2% to 5%. The debt matures in July 2037. Please refer to note 5 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

Enrollment and Per Pupil Revenue remain the key components driving the budget preparation process each year. Funding increases the last two years have helped to chip away at the State's unfunded negative factor. Increases in Capital Construction Funding will go a long way to support the School's facility lease expense. The State's economy continues to grow with State unemployment at 2.4% and sales tax growth approaching double digits. Consequently we are optimistic and believe future funding increases will materialize. Enrollment for the School was 383, 404, 405, 424, 444 and 439 for FY12, FY13, FY14, FY15, FY16 and FY17 respectively. The enrollment excludes preschool.

The FY 2017/2018 adopted budget projects that DCS Montessori Charter School will decrease the general fund ending fund balance by $(114,420). This budget is based on a projected pupil count of 410, which considers kindergarten students being funded at 58% of the per pupil revenue rate.

Requests for Information

This financial report is designed to provide a general overview of the DCS Montessori 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 DCS Montessori Charter School, Rachel Bonin, 311 Castle Pines Parkway, Castle Pines, CO 80108.

BASIC FINANCIAL STATEMENTS

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	$ 1,329,978	$ 97,425	$ 1,427,403
Restricted Cash and Investments	-	1,127,329	1,127,329
Accounts Receivable	-	1,919	1,919
Inventory	-	21,555	21,555
Prepaid Expenses	9,576	2,043	11,619
Capital Assets, Not Being Depreciated	-	508,415	508,415
Capital Assets, Net of Accumulated Depreciation	29,431	6,321,969	6,351,400
TOTAL ASSETS	1,368,985	8,080,655	9,449,640
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	6,001,683	-	6,001,683
Loss on Debt Refunding, Net of Accumulated Amortization	-	417,816	417,816
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,001,683	417,816	6,419,499
LIABILITIES			
Accounts Payable	14,774	3,224	17,998
Accrued Salaries and Benefits	148,122	-	148,122
Unearned Revenues	89,011	-	89,011
Accrued Interest Payable	-	170,855	170,855
Noncurrent Liabilities			
Due Within One Year	-	265,000	265,000
Due in More Than One Year	-	8,128,776	8,128,776
Net Pension Liability	14,972,704	-	14,972,704
TOTAL LIABILITIES	15,224,611	8,567,855	23,792,466
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	94,520	-	94,520
NET POSITION			
Net Investment in Capital Assets	29,431	(1,145,576)	(1,116,145)
Restricted for Debt Service	-	807,433	807,433
Restricted for Repair and Replacement	-	150,960	150,960
Restricted for Emergencies	150,000	-	150,000
Unrestricted	(8,127,894)	117,799	(8,010,095)
TOTAL NET POSITION	$ (7,948,463)	$ (69,384)	$ (8,017,847)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	$ 4,801,115	$ 1,687,557	$ 22,167
Supporting Services	1,916,112	19,510	-
Total Governmental Activities	6,717,227	1,707,067	22,167
Business-Type Activities			
Foundation	873,766	-	-
TOTAL PRIMARY GOVERNMENT	$ 7,590,993	$ 1,707,067	$ 22,167

GENERAL REVENUES

Per Pupil Revenue

District Mill Levy

Capital Construction

Grants and Contributions not Restricted to Specific Programs

Investment Income

Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
$ (3,091,391)	$ -	$ (3,091,391)
(1,896,602)	-	(1,896,602)
(4,987,993)	-	(4,987,993)
-	(873,766)	(873,766)
(4,987,993)	(873,766)	(5,861,759)
2,938,537	-	2,938,537
225,568	-	225,568
114,895	-	114,895
8,726	228,815	237,541
9,940	6,245	16,185
9,657	-	9,657
(835,471)	835,471	-
2,471,852	1,070,531	3,542,383
(2,516,141)	196,765	(2,319,376)
(5,432,322)	(266,149)	(5,698,471)
$ (7,948,463)	$ (69,384)	$ (8,017,847)

DCS MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

		GENERAL
ASSETS		
Cash and Investments	$	1,329,978
Prepaid Expenditures		9,576
TOTAL ASSETS	$	1,339,554
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$	14,774
Accrued Salaries and Benefits		148,122
Unearned Revenues		89,011
TOTAL LIABILITIES		251,907
FUND BALANCE		
Nonspendable Prepaid Expenditures		9,576
Restricted for Emergencies		150,000
Unrestricted, Unassigned		928,071
TOTAL FUND BALANCE		1,087,647
TOTAL LIABILITIES AND FUND BALANCE	$	1,339,554

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

Total Fund Balance of the Governmental Fund	$	1,087,647
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in govermental funds.		29,431
Long-term liabilities and related items, including net pension liability ($14,972,704), deferred outflows of resources $6,001,683, and deferred inflows of resources ($94,520), are not due and payable in the current year and, therefore, are not reported in governmental funds.		(9,065,541)
Total Net Position of Governmental Activities	$	(7,948,463)

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

DCS MONTESSORI CHARTER SCHOOL

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

Year Ended June 30, 2017

		GENERAL
REVENUES		
Local Sources		
Per Pupil Revenue	$	2,938,537
District Mill Levy		225,568
Student Fees and Activities		1,687,557
Contributions and Fundraising		8,726
Rental Income		19,510
Investment Income		9,940
Miscellaneous		9,657
State Sources		
Capital Construction		114,895
Grants		22,167
TOTAL REVENUES		5,036,557
EXPENDITURES		
Instruction		2,939,019
Supporting Services		2,133,389
TOTAL EXPENDITURES		5,072,408
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(35,851)
OTHER FINANCING SOURCES (USES)		
Transfers In		9,208
Transfers Out		(1,210)
TOTAL OTHER FINANCING SOURCES (USES)		7,998
NET CHANGE IN FUND BALANCE		(27,853)
FUND BALANCE, Beginning		1,115,500
FUND BALANCE, Ending	$	1,087,647

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

Net Change in Fund Balance of the Governmental Fund	$	(27,853)
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This amount represents depreciation expense in the current year.		(6,591)
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 amount represents the change in net pension liability ($7,563,616), pension-related deferred outflows of resources $5,000,148, and pension-related deferred inflows of resources $81,771 in the current year.		(2,481,697)
Change in Net Position of Governmental Activities	$	(2,516,141)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2017

	FOUNDATION
ASSETS	
CURRENT ASSETS	
Cash and Investments	$ 97,425
Restricted Cash and Investments	1,127,329
Accounts Receivable	1,919
Inventory	21,555
Prepaid Expenses	2,043
TOTAL CURRENT ASSETS	1,250,271
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	508,415
Capital Assets, Net of Accumulated Depreciation	6,321,969
TOTAL NONCURRENT ASSETS	6,830,384
TOTAL ASSETS	8,080,655
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	417,816
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	3,224
Accrued Interest Payable	170,855
Loan Payable, Current Portion	265,000
TOTAL CURRENT LIABILITIES	439,079
NONCURRENT LIABILITIES	
Loan Payable	8,128,776
TOTAL LIABILITIES	8,567,855
NET POSITION	
Net Investment in Capital Assets	(1,145,576)
Restricted for Debt Service	807,433
Restricted for Repair and Replacement	150,960
Unrestricted	117,799
TOTAL NET POSITION	$ (69,384)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2017

	FOUNDATION
OPERATING REVENUES	
Lease Revenue	$ 648,069
Contributions and Fundraising	228,815
TOTAL OPERATING REVENUES	876,884
OPERATING EXPENSES	
Supporting Services	208,523
Depreciation	263,034
Interest	402,209
TOTAL OPERATING EXPENSES	873,766
NET OPERATING INCOME	3,118
NONOPERATING REVENUES	
Investment Income	6,245
NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	9,363
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital Contributions	195,400
Transfers In	1,210
Transfers Out	(9,208)
CHANGE IN NET POSITION	196,765
NET POSITION, Beginning	(266,149)
NET POSITION, Ending	$ (69,384)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2017

	FOUNDATION
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	$ 648,069
Cash Received from Contributions and Fundraising	229,682
Payments to Vendors and Recipients	(213,346)
Loan Principal Payments	(265,000)
Loan Interest Payments	(377,275)
Net Cash Provided by Operating Activities	22,130
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments from Other Funds	1,210
Acquisition of Capital Assets	(46,987)
Net Cash Provided (Used) by Capital and Related Financing Activities	(45,777)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	6,776
Payments to Other Funds	(9,208)
Net Cash Provided by Investing Activities	(2,432)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(26,079)
CASH AND CASH EQUIVALENTS, Beginning	1,250,833
CASH AND CASH EQUIVALENTS, Ending	$ 1,224,754
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income	$ 3,118
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	263,034
Amortization of Premium	(188)
Amortization of Loss on Refunding	27,855
Changes in Assets and Liabilities	
Accounts Receivable	867
Inventory	(6,142)
Prepaid Expenses	(34)
Accounts Payable	1,353
Accrued Interest Payable	(2,733)
Loan Payable	(265,000)
Net Cash Provided by Operating Activities	$ 22,130
NONCASH TRANSACTIONS	
Contributed Capital Assets	$ 195,400

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DCS Montessori Charter School (the "School") was organized in 1997 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the "District") in the State of Colorado.

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 financial 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 the organization has the potential to provide benefits to, or impose financial burdens on, the School.

The School includes the Montessori Educational Foundation of Douglas County (the "Foundation") within its reporting entity. The Foundation is a non-profit organization established to provide educational activities that are not typically budgeted in the School's fiscal plan. The Foundation nurtures relationships between business, educational, governmental, and charitable organizations for the purpose of enhancing education for the School. The Foundation was also formed to obtain financing for School facilities which may not be available to the School directly. The Foundation is blended into the School's financial statements as an enterprise fund. Separate financial statements are not issued.

The School is a component unit of the District. The School's charter was authorized by the District and the majority of the School's funding is provided by the 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 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*.

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 is the proprietary fund in the 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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. 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 proprietary 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 the following major proprietary fund:

Foundation - This fund is used to account for the activities of the Foundation, including fundraising and the financing of educational facilities.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - For purposes of the statement of cash flows, cash equivalents include investments with original maturities of three months or less.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Inventory - Grocery scrip inventory is stated at average cost. Inventory is recorded as an asset when individual items are purchased and as an expense when consumed.

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

Capital Assets - Capital assets, which include property 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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Land Improvements	15 years
Buildings and Improvements	40 years
Furniture and Equipment	5 - 7 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 and fees.

Compensated Absences - Employees are allowed to accumulate unused personal/sick time. Employees may elect to be paid for the accumulated unused personal/sick time at the conclusion of the school year at the rate of $80 per day for salaried staff and $40 for every four hours for classified staff. Accumulated but unpaid personal/sick time is not paid upon termination 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. Debt premiums, discounts and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

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. Investments are reported at fair value.

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. For these risks of loss, the School participates in the District's risk management program.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2017, the Foundation had a negative net position of $69,384. Management expects this negative balance to be eliminated as the Foundation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2017, consisted of the following:

Deposits	$ 246,201
Investments	2,308,531
Total	**$ 2,554,732**

NOTE 3: CASH AND INVESTMENTS (Continued)

Cash and investments are reported in the financial statements as follows:

Cash and Investments	$ 1,427,403
Restricted Cash and Investments	1,127,329
Total	**$ 2,554,732**

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 (GICs)
- Local government investment pools

At June 30, 2017, the School and the Foundation had the following investments:

		Investment Maturities (in Years)			
Investment Type	S&P Rating	Less Than 1	1-5	More Than 5	Total
U.S. Agency Securities	AA+	$ 163,960	$ 278,664	$ 126,835	$ 569,459
Local Government Investment Pool	AAAm	1,739,072	-	-	1,739,072
Total		**$ 1,903,032**	**$ 278,664**	**$ 126,835**	**$ 2,308,531**

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value Measurements - The School reports its investments using the fair value measurements established by generally accepted accounting principles. As such, a fair value hierarchy categorizes the inputs used to measure the fair value of the investments into three levels. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs include quoted prices in active markets for similar investments, or other observable inputs; and Level 3 inputs are unobservable inputs. At June 30, 2017, the investments in U.S. Agency securities were measured utilizing quoted prices in active markets for similar investments (Level 2 inputs). The external investment pool was reported at the net asset value per share, measured using amortized cost.

Interest Rate Risk - State statutes generally limit investments to an original maturity of 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 certain 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.

Local Government Investment Pool - At June 30, 2017, the School and the Foundation had $1,739,072 invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at $1. CSAFE is rated AAAm by Standard and Poor's. Investments of CSAFE are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

Cash and investments of $1,127,329 have been restricted by the Foundation for future debt service and facility repair and replacement.

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017, are summarized below:

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	$ 62,553	$ -	$ -	$ 62,553
Accumulated Depreciation	(26,531)	(6,591)	-	(33,122)
Governmental Activities Capital Assets, Net	**$ 36,022**	**$ (6,591)**	**$ -**	**$ 29,431**
Business-type Activities				
Capital Assets, Not Being Depreciated				
Land	$ 508,415	$ -	$ -	$ 508,415
Capital Assets, Being Depreciated				
Land Improvements	322,416	-	-	322,416
Buildings and Improvements	9,178,225	195,400	-	9,373,625
Furniture and Equipment	247,103	46,987	-	294,090
Total Capital Assets, Being Depreciated	9,747,744	242,387	-	9,990,131
Accumulated Depreciation				
Land Improvements	(63,367)	(21,494)	-	(84,861)
Buildings and Improvements	(3,110,215)	(236,714)	-	(3,346,929)
Furniture and Equipment	(231,546)	(4,826)	-	(236,372)
Total Accumulated Depreciation	(3,405,128)	(263,034)	-	(3,668,162)
Total Capital Assets, Being Depreciated, Net	6,342,616	(20,647)	-	6,321,969
Business-Type Activities Capital Assets, Net	**$ 6,851,031**	**$ (20,647)**	**$ -**	**$ 6,830,384**

Depreciation expense of the governmental activities was charged to the supporting services program.

NOTE 5: LONG-TERM DEBT

Following is a summary of the long-term debt transactions for the year ended June 30, 2017.

	Balances 6/30/16	Additions	Payments	Balances 6/30/17	Due Within One Year
Business-Type Activities					
2012 Loan	$ 8,655,000	$ -	$ 265,000	$ 8,390,000	$ 265,000
Premium	3,964	-	188	3,776	-
Total	**$ 8,658,964**	**$ -**	**$ 265,188**	**$ 8,393,776**	**$ 265,000**

NOTE 5: LONG-TERM DEBT (Continued)

In July, 2012, the Colorado Educational and Cultural Facilities Authority issued $9,420,000 Charter School Refunding and Improvement Bonds. Proceeds were used to refund the outstanding Charter School Revenue Refunding Bonds, Series 2002, originally loaned to the Foundation to purchase and construct the School's education facilities, and to finance the construction of facilities to accommodate the middle school component of the School.

The School is obligated under a lease agreement to make monthly lease payments to the Foundation for using the facilities. The Foundation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue interest at rates ranging from 2% to 5%. Principal and interest payments are due semi-annually on January 15 and July 15, through July 15, 2037.

Future debt service requirements for the bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 265,000	$ 371,313	$ 636,313
2019	285,000	363,187	648,187
2020	280,000	353,925	633,925
2021	300,000	344,663	644,663
2022	305,000	334,913	639,913
2023 - 2027	1,720,000	1,493,319	3,213,319
2028 - 2032	2,155,000	1,076,900	3,231,900
2033 - 2037	2,765,000	474,000	3,239,000
2038	315,000	7,875	322,875
Total	**$ 8,390,000**	**$ 4,820,095**	**$ 13,210,095**

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2017, the School transferred $1,210 to the Foundation to fund the repair and replacement reserve required by the Foundation's loan agreement (See Note 5). In addition, the Foundation's trustee distributed excess interest earnings of $9,208 to the School.

NOTE 7: 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 the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 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 SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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 in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary 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 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, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

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

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, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% 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 8). The School's contributions to the SDFT for the year ended June 30, 2017, were $448,538, 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, 2017, the School reported a net pension liability of $14,972,704, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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, 2016, relative to the contributions of all participating employers. At December 31, 2016, the School's proportion was 0.0502880739%, which was an increase of 0.0018445956% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of $2,910,666. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 184,867	$ 126
Changes of assumptions and other inputs	4,858,330	65,043
Net difference between projected and actual earnings on plan investments	482,219	-
Changes in proportion	232,377	29,351
Contributions subsequent to the measurement date	243,890	-
Total	**$ 6,001,683**	**$ 94,520**

School contributions subsequent to the measurement date of $243,890 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:

Year Ended June 30,	
2018	$ 2,257,166
2019	2,280,651
2020	1,120,462
2021	4,994
Total	**$ 5,663,273**

Actuarial Assumptions - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

	Assumptions	Revised Assumptions
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using 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. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected rate of return on 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.

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 follows:

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

Discount Rate - The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

Sensitivity 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 5.26%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	$ 18,827,694	$ 14,972,704	$ 11,832,954

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.

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was $23,573, $22,496 and $20,878, respectively, equal to the required amounts for each year.

NOTE 9: 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, 2017, 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.

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

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 many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of $150,000.

REQUIRED SUPPLEMENTARY INFORMATION

DCS 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, 2017

	12/31/16	12/31/15	12/31/14	12/31/13
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY				
School's Proportion of the Net Pension Liability	0.0502880739%	0.0484434783%	0.0479266287%	0.0491429554%
School's Proportionate Share of the Net Pension Liability	$ 14,972,704	$ 7,409,088	$ 6,495,668	$ 6,268,171
School's Covered Payroll	$ 2,257,020	$ 2,111,440	$ 2,007,780	$ 1,981,110
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%

	6/30/17	6/30/16	6/30/15	6/30/14
SCHOOL CONTRIBUTIONS				
Statutorily Required Contribution	$ 424,965	$ 391,331	$ 342,389	$ 314,517
Contributions in Relation to the Statutorily Required Contribution	(424,965)	(391,331)	(342,389)	(314,517)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
School's Covered Payroll	$ 2,311,058	$ 2,205,458	$ 2,027,653	$ 1,966,852
Contributions as a Percentage of Covered Payroll	18.39%	17.74%	16.89%	15.99%

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.

See the accompanying Independent Auditors' Report.

DCS MONTESSORI CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	$ 2,848,369	$ 2,946,632	$ 2,938,537	$ (8,095)
District Mill Levy	220,822	227,480	225,568	(1,912)
Student Fees and Activities	1,446,680	1,492,880	1,687,557	194,677
Contributions and Fundraising	-	-	8,726	8,726
Rental Income	22,500	22,500	19,510	(2,990)
Investment Income	5,200	6,100	9,940	3,840
Miscellaneous	42,000	15,000	9,657	(5,343)
State Sources				
Capital Construction	100,500	115,896	114,895	(1,001)
Grants	15,400	21,177	22,167	990
TOTAL REVENUES	4,701,471	4,847,665	5,036,557	188,892
EXPENDITURES				
Salaries	2,385,616	2,390,616	2,358,790	31,826
Employee Benefits	759,892	749,892	749,267	625
Purchased Services	1,127,823	1,153,332	1,214,508	(61,176)
Supplies	253,900	273,900	241,952	31,948
Property	164,600	319,600	285,234	34,366
Miscellaneous	200,000	200,000	222,657	(22,657)
Reserves	50,000	50,000	-	50,000
TOTAL EXPENDITURES	4,941,831	5,137,340	5,072,408	64,932
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(240,360)	(289,675)	(35,851)	253,824
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	9,208	9,208
Transfers Out	-	-	(1,210)	(1,210)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	7,998	7,998
NET CHANGE IN FUND BALANCE	(240,360)	(289,675)	(27,853)	261,822
FUND BALANCE, Beginning	981,349	1,115,500	1,115,500	-
FUND BALANCE, Ending	$ 740,989	$ 825,825	$ 1,087,647	$ 261,822

See the accompanying Independent Auditors' Report.

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS

The Public Employees' Retirement Association of Colorado 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, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

The School adheres to the following procedures to establish the budgetary information reflected in the financial statements.

- Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

- Prior to June 30, the budget is adopted by the Board of Directors.

- 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 budgets lapse at fiscal year end.