MOUNTAIN SONG COMMUNITY SCHOOL

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2019

MOUNTAIN SONG COMMUNITY SCHOOL
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JUNE 30, 2019

Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain Song Community School

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain Song Community School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mountain Song Community School, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

31 East Platte Avenue, Suite 300 • Colorado Springs, CO 80903 • (719) 630-1091 • Fax (719) 630-0522 • www.hoeltingco.com

Other-Matters

Required Supplementary Information

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

Hoelting & Company Inc.

Colorado Springs, Colorado
September 30, 2019

Mountain Song Community School
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2019

As management of Mountain Song Community School (MSCS or the School), we offer readers of Mountain Song Community School's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2019 is the sixth year of operations for MSCS. As of June 30, 2019, net position increased by $129,579 to $(6,515,338). Mountain Song Community School's governmental fund reported an ending fund balance of $456,706, a decrease of $(170,777) from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was $2,142,372.

Overview of Financial Statements

This discussion and analysis is 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 the School's finances, in a manner similar to a private-sector business.

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

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

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's authorizer (Colorado Charter School Institute). The governmental activities of MSCS 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 keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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 School maintains one governmental fund and adopts an annually appropriated budget for the fund. A budgetary comparison schedule is included to demonstrate that spending did not exceed the budget.

Notes to the Financial Statements

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

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2019, MSCS's net position was $(6,515,338). This position includes a net pension liability in the amount of $4,878,847, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. The School's net position also includes a net OPEB (Other Post-Employment Benefits) liability in the amount of $243,668, representing the School's proportionate share of the defined benefit Health Care Trust Fund, administered by PERA. The School reports this net OPEB liability, and associated deferred inflows and outflows of resources, as requirement by GASB 75. More information regarding the net pension and OPEB liabilities may be found in the notes to the financial statements.

Of the School's total net position, $16,519 is invested in capital assets and $82,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Mountain Song Community School's Net Position

	2018-2019	2017-2018
ASSETS		
Cash	$ 432,695	$ 545,278
Intergovernmental Receivable	26,887	69,488
Other Receivables	310	-
Prepaid Expenses	-	25,226
Capital Assets, Net of Accumulated Depreciation	16,519	19,395
TOTAL ASSETS	476,411	659,387
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	1,642,385	3,240,428
OPEB, Net of Accumulated Amortization	25,454	15,491
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,667,839	3,255,919
LIABILITIES		
Accounts Payable	309	12,509
Accrued Expenses	2,877	-
Noncurrent Liabilities		
Net Pension Liability	4,878,847	9,811,486
Net OPEB Liability	243,668	224,053
TOTAL LIABILITIES	5,125,701	10,048,048
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	3,533,516	508,374
OPEB, Net of Accumulated Amortization	371	3,801
TOTAL DEFERRED INFLOWS OF RESOURCES	3,533,887	512,175
NET POSITION		
Investment in Capital Assets	16,519	19,395
Restricted for Emergencies	82,000	73,000
Unrestricted	(6,613,857)	(6,737,312)
TOTAL NET POSITION	$ (6,515,338)	$ (6,644,917)

Mountain Song Community School's Change in Net Position

	2018-2019	2017-2018
REVENUES		
Per Pupil Revenue	$ 2,142,372	$ 2,125,909
Mill Levy Override	90,897	-
Charges for Services	59,484	59,956
Operating Grants and Contributions	218,222	242,174
Capital Grants and Contributions	82,883	77,184
Investment Income	138	-
Other	49,582	1,205
TOTAL REVENUE	2,643,578	2,506,428
EXPENSES		
Instruction	1,700,269	3,621,783
Support Services	813,730	937,097
TOTAL EXPENSES	2,513,999	4,558,880
CHANGE IN NET POSITION	129,579	(2,052,452)
NET POSITION, Beginning	(6,644,917)	(4,592,465)
NET POSITION, Ending	$ (6,515,338)	$ (6,644,917)

Financial Analysis of the Government's Fund

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

The focus of the School's governmental fund 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, unassigned 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 $456,706, a decrease of $(170,777) from the prior year.

General Fund Budgetary Highlights

MSCS recognized $92,679 more revenue than expected and spent $42,497 less than planned, when compared to the final budget. There were budget amendments during the year, which reflected changes in revenues and expenditures. Overall, revenue and expenditures were fine-tuned to account for changes to student enrollment.

Capital Assets & Long-Term Debt

The School has invested in capital assets for equipment in support of the School's educational program. Depreciation expenses for capital assets are booked under the Instruction program of the School’s operations. More information regarding capital assets may be found in Note 4 to the financial statements.

The School has no long-term obligations.

Economic Factors and Next Year’s Budget

The primary factor driving the budget for Mountain Song Community School is student enrollment. Enrollment for the 2018-2019 school year was 276.40 funded students. Enrollment projected for 2019-2020 is 311.00 funded students. This factor was considered when preparing MSCS’s budget for 2019-2020.

Requests for Information

This financial report is designed to provide a general overview of Mountain Song Community 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:

Mountain Song Community School
2904 West Kiowa St
Colorado Springs, CO 80904

BASIC FINANCIAL STATEMENTS

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS		
Cash	$	432,695
Intergovernmental receivable		26,887
Other receivables		310
Capital assets, net of accumulated depreciation		16,519
Total assets		476,411
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows		1,642,385
Deferred OPEB outflows		25,454
Total deferred outflows of resources		1,667,839
LIABILITIES		
Accounts payable		309
Accrued expenses		2,877
Noncurrent liabilities:		
Due in more than one year		
Net pension liability		4,878,847
Net OPEB liability		243,668
Total liabilities		5,125,701
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows		3,533,516
Deferred OPEB inflows		371
Total deferred inflow of resources		3,533,887
NET POSITION		
Investment in capital assets		16,519
Restricted for TABOR		82,000
Unrestricted		(6,613,857)
Total net position	$	(6,515,338)

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

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Program Expense
Governmental activities:					
Instruction	$ 1,700,269	$ 59,484	$ 217,165	$ -	$ (1,423,620)
Support services	813,730	-	1,057	82,883	(729,790)
Total governmental activities	$ 2,513,999	$ 59,484	$ 218,222	$ 82,883	(2,153,410)
	General revenues:				
	Per pupil revenue				2,142,372
	Mill levy override				90,897
	Investment income				138
	Other income				49,582
	Total general revenues				2,282,989
	Change in net position				129,579
	Net position, beginning (deficit)				(6,644,917)
	Net position, ending (deficit)				$ (6,515,338)

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

MOUNTAIN SONG COMMUNITY SCHOOL
BALANCE SHEET
GENERAL FUND
JUNE 30, 2019

ASSETS		
Cash	$	432,695
Intergovernmental receivable		26,887
Other receivables		310
Total assets		459,892
LIABILITIES		
Accounts payable		309
Accrued expenses		2,877
Total liabilities		3,186
FUND BALANCE		
Restricted for TABOR		82,000
Unassigned		374,706
Total fund balance		456,706
Total liabilities and fund balance	$	459,892

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

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

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

Total fund balance, governmental funds			$	456,706
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds, but are reported in the governmental activities of the Statement of Net Position.				16,519
Long-term liabilities and related items are not due and payable in the current year and therefore, are not reported in the governmental funds.				
Net pension liabilities	$	(4,878,847)		
Pension outflows		1,642,385		
Pension inflows		(3,533,516)		
Net OPEB liabilities		(243,668)		
OPEB outflows		25,454		
OPEB inflows		(371)		(6,988,563)
Total Net Position of Governmental Activities			$	(6,515,338)

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

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

REVENUES	
Local sources	$ 122,398
State sources	2,486,123
Federal sources	71,251
Total revenues	2,679,772
EXPENDITURES	
Instruction	1,932,216
Support services	918,333
Total expenditures	2,850,549
Net change in fund balance	(170,777)
Fund balance, beginning	627,483
Fund balance, ending	$ 456,706

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

MOUNTAIN SONG COMMUNITY SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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

Net change in fund balances - total governmental funds:		$ (170,777)
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.		(2,876)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Pension expenses	$ 309,454	
OPEB expenses	(6,222)	303,232
Change in net position of governmental activities		$ 129,579

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mountain Song Community School (the School) was organized pursuant to the Colorado Charter Schools Act on February 19, 2013 to form and operate a charter school under the oversight of the State Charter School Institute (CSI). The School began admitting students in the fall of 2013. The School receives its State funding from CSI. The current charter runs through June 30, 2019 and will be automatically extended by additional two years, through June 30, 2021 contingent on the school maintaining a CDE and CSI rating of Performance.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

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

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

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

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

The School reports the following major governmental fund:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

Cash and cash equivalents

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

Receivables

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

Prepaid expenses

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is $2,000. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 years

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

Pensions

Mountain Song Community School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension 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/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Pensions (continued)

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SCHDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SCHDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SCHDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

Health Care Trust Fund

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred outflows/inflows of resources

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

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

Net position flow assumption

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Classification

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

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

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Balance Classification (continued)

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 resources first to defer the use of these other classified funds.

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

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

Compensated Absences

The School's employees are granted nine days paid time off during the year for personal needs and illness. Unused leave may not be carried over to subsequent school years. Accumulated paid time off at June 30, 2019 is not considered to be material to the financial statements. As a result, a liability for unused paid time off is not recorded in the financial statements.

G. ESTIMATES

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

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

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

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

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

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits.

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

At June 30, 2019, the carrying amount of the School's deposits was $432,695 and the bank balances were $431,885. Of the total bank balance, $250,000 was covered by FDIC insurance and $181,885 was uninsured but collateralized in accordance with the provisions of the Colorado Public Deposit Protection Act (PDPA). The collateral is pooled and held in a trust for all uninsured deposits as a group.

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

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

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

The School had no investments as of June 30, 2019.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Equipment	$ 28,757	$ -	$ -	$ 28,757
Total capital assets, being depreciated	28,757	-	-	28,757
Less accumulated depreciation	(9,362)	(2,876)	-	(12,238)
Total capital assets, net	$ 19,395	$ (2,876)	$ -	$ 16,519

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

Instruction	$ 2,876

NOTE 5 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

Benefits provided as of December 31, 2018. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

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

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

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

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

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

Contributions provisions as of June 30, 2019: Eligible employees, Mountain Song Community School and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq*. and § 24-51-413. Eligible employees are required to contribute 8 percent of their PERA-includable salary during the period of July 1, 2018 through June 30, 2019. Employer contribution requirements are summarized in the table below:

	January 1, 2018 Through December 31, 2018	January 1, 2019 Through June 30, 2019
Employer contribution rate	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	5.50%	5.50%
Total employer contribution rate to the SCHDTF	19.13%	19.13%

Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 24-51-413, the State is required to contribute $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Mountain Song Community School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Mountain Song Community School were $311,790 for the year ended June 30, 2019.

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The net pension liability for the SCHDTF was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total pension liability to December 31, 2018. The Mountain Song Community School proportion of the net pension liability was based on Mountain Song Community School contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers and the State as a nonemployer contributing entity.

At June 30, 2019, the Mountain Song Community School reported a liability of $4,878,847 for its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the Mountain Song Community School as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with Mountain Song Community School were as follows:

Mountain Song Community School proportionate share of the net pension liability	$ 4,878,847
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the Mountain Song Community School	667,115
Total	$ 5,545,962

At December 31, 2018, the Mountain Song Community School proportion was 0.0275531255 percent, which was a decrease of 0.0027887554 from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the Mountain Song Community School recognized pension expense of $2,336 and revenue of $3,427 for support from the State as a nonemployer contributing entity. At June 30, 2019, the Mountain Song Community School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 165,496	$ -
Changes of assumptions or other inputs	910,658	3,034,118
Net difference between projected and actual earnings on pension plan investments	265,928	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	142,017	499,398
Contributions subsequent to the measurement date	158,286	N/A
Total	$ 1,642,385	$ 3,533,516

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

$158,286 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2019:	
2020	$ (268,094)
2021	(1,145,574)
2022	(781,217)
2023	145,468
2024	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	4.78 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually, thereafter
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

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

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

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

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

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

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include the current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- As specified in law, the State will provide an annual direct distribution of $225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.

- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 percent.

NOTE 5 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.78 percent, 2.47 percent lower compared to the current measurement date.

Sensitivity of the Mountain Song Community School *proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	$ 6,202,619	$ 4,878,847	$ 3,767,979

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's CAFR which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

Health Care Trust Fund

Plan description. Eligible employees of the Mountain Song Community School are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

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

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

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Mountain Song Community School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from Mountain Song Community School were $16,626 for the year ended June 30, 2019.

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

At June 30, 2019, the Mountain Song Community School reported a liability of $243,668 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018. The Mountain Song Community School proportion of the net OPEB liability was based on Mountain Song Community School contributions to the HCTF for the calendar year 2018 relative to the total contributions of participating employers to the HCTF.

At December 31, 2018, the Mountain Song Community School proportion was 0.0179096455 percent, which was an increase of 0.0006695142 from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the Mountain Song Community School recognized OPEB expense of $22,848. At June 30, 2019, the Mountain Song Community School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 884	$ 371
Changes of assumptions or other inputs	1,709	-
Net difference between projected and actual earnings on OPEB plan investments	1,401	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	13,020	-
Contributions subsequent to the measurement date	8,440	N/A
Total	$ 25,454	$ 371

$8,440 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2019:	
2020	$ 3,437
2021	3,437
2022	3,437
2023	4,410
2024	1,858
Thereafter	64

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Actuarial assumptions. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually rising to 5.00 percent in 2025
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	$736	$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
UnitedHealthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is $422 per month.

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	**Cost for Members Without Medicare Part A**
Self-Funded Medicare Supplement Plans	$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
UnitedHealthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below.

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2017, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

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

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2018 plan year.

- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability	$ 236,940	$ 243,668	$ 251,407

NOTE 6 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2018, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$ 272,644	$ 243,668	$ 218,897

OPEB plan fiduciary net position. Detailed information about the HCTF's fiduciary net position is available in PERA's CAFR which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 7 - RISK MANAGEMENT

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

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

NOTE 8 - CONCENTRATION OF RISK

Charter School Institute

The School is funded directly by the Charter School Institute (CSI) based on the CSI's per pupil funding. For the fiscal year ended June 30, 2019, this funding accounted for approximately 80% of the School's revenues.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

In April 2013, the School entered into a lease agreement with Colorado Springs School District 11 to lease property located at 2904 West Kiowa, Colorado Springs, CO. The agreement requires monthly lease payments ranging from $8,125 to $11,510 through June 30, 2019. The lease was extended through June 30, 2020. The total cost for this lease was $138,125 for the year ended June 30, 2019. The future minimum lease payments for leases are as follows:

Year ending June 30	
2020	$ 146,250

Grants

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

NOTE 10 - AMENDMENT TO COLORADO CONSTITUTION

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

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2019 there was a $82,000 reservation of fund balance in the General Fund for the amendment.

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

NOTE 11 - COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2019 audit period as required by Colorado Statute CRS 22-44-204(3).

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2019

	2018	2017	2016	2015	2014	2013
School's proportion of the net pension liability (asset)	0.0275531255%	0.0303418809%	0.0291668401%	0.0265299735%	0.0266350960%	0.0202251586%
School's proportionate share of the net pension liability (asset)	$ 4,878,847	$ 9,811,486	$ 8,684,096	$ 4,057,572	$ 3,609,950	$ 2,579,714
State's proportionate share of the net pension liability (asset) associated with the School	667,115	-	-	-	-	-
Total	$ 5,545,962	$ 9,811,486	$ 8,684,096	$ 4,057,572	$ 3,609,950	$ 2,579,714
School's covered payroll	$ 1,514,743	$ 1,399,635	$ 1,309,060	$ 1,156,170	$ 1,115,819	$ 815,338
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	322.09%	701.00%	663.38%	350.95%	323.52%	316.40%
Plan fiduciary net position as a percentage of the total pension liability	57.0%	44.0%	43.1%	59.2%	62.8%	64.1%

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

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF THE EMPLOYER'S PAYROLL CONTRIBUTIONS - PENSION
JUNE 30, 2019

	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 311,790	$ 264,973	$ 254,110	$ 215,237	$ 200,301	$ 141,353
Contributions in relation to the contractually required contribution	(311,790)	(264,973)	(254,110)	(215,237)	(200,301)	(141,353)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
School's covered payroll	$ 1,629,849	$ 1,403,457	$ 1,382,536	$ 1,213,969	$ 1,186,616	$ 884,562
Contributions as a percentage of covered payroll	19.13%	18.88%	18.38%	17.73%	16.88%	15.98%

* The amounts presented for each fiscal year were determined as of 6/30.

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
JUNE 30, 2019

	2018	2017	2016
School's proportion of the net OPEB liability (asset)	0.0179096455%	0.0172401313%	0.0165788032%
School's proportionate share of the net OPEB liability (asset)	$ 243,668	$ 224,053	$ 214,950
School's covered payroll	$ 1,514,740	$ 1,399,634	$ 1,309,062
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.09%	16.01%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.0%	17.5%	16.7%

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

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
SCHEDULE OF THE EMPLOYER'S PAYROLL CONTRIBUTIONS - OPEB
JUNE 30, 2019

	2019	2018	2017
Contractually required contribution	$ 16,626	$ 14,313	$ 14,095
Contributions in relation to the contractually required contribution	(16,626)	(14,313)	(14,095)
Contribution deficiency (excess)	$ -	$ -	$ -
School's covered payroll	$ 1,629,972	$ 1,403,187	$ 1,381,894
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%

* The amounts presented for each fiscal year were determined as of 6/30.

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

See the accompanying independent auditors' report.

MOUNTAIN SONG COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Local sources				
Fees	$ -	$ -	50,080	$ 50,080
Tuition	-	-	34,200	34,200
Donations	-	-	13,194	13,194
Other	243,772	185,188	24,924	(160,264)
Total local sources	243,772	185,188	122,398	(62,790)
State sources				
Per pupil revenue	2,318,308	2,130,558	2,142,372	11,814
Capital construction funding	-	-	82,883	82,883
Other	208,722	197,671	260,868	63,197
Total state sources	2,527,030	2,328,229	2,486,123	157,894
Federal sources	73,676	73,676	71,251	(2,425)
Total revenues	2,844,478	2,587,093	2,679,772	92,679
EXPENDITURES				
Instruction	1,986,689	1,974,068	1,932,216	41,852
Support services	857,789	918,978	918,333	645
Total expenditures & reserves	2,844,478	2,893,046	2,850,549	42,497
Net change in fund balance	-	(305,953)	(170,777)	135,176
Fund balance, beginning	482,130	627,483	627,483	-
Fund balance, ending	$ 482,130	$ 321,530	$ 456,706	$ 135,176

See the accompanying independent auditors' report.