FREE HORIZON MONTESSORI CHARTER SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2017

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Board of Directors
Free Horizon Montessori Charter School
Golden, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements governmental activities and each major fund of Free Horizon Montessori Charter School, component unit of Jefferson County School District No. R-1, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Free Horizon Montessori Charter School, as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

600 17TH STREET SUITE 2800 SOUTH • DENVER, COLORADO 80202 •TEL 303.634.2259 •FAX 303.496.4631

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

November 13, 2017

Management's Discussion and Analysis

As management of Free Horizon Montessori, we offer readers of these financial statements this narrative overview and analysis of the financial activities of Free Horizon Montessori charter school ("the School") for the fiscal year ended June 30, 2017.

Financial Highlights

At the close of its 15th year of operation, the revenues of Free Horizon Montessori exceeded its expenses, resulting in a net gain of $113,120. The School's assets of $7,629,239 also exceeded its short-term and debt service liabilities totaling $6,227,093. However, due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68[1], effective in 2015, governmental entities participating in cost-sharing multiple-employer defined benefit pension plans, including schools like Free Horizon Montessori, which is part of the Public Employees' Retirement Association (PERA), must report a proportionate share of the total net pension liability (unfunded liability) of the pension trust fund at PERA. This resulted in Free Horizon Montessori's 2017 ending net position of $(5,407,536) due to long-term net pension liability of $12,242,207 reflected in its statements. Overall, the 2017 fiscal activities continue the trend of positive financial position, which has allowed the school to continue to increase its unrestricted operational reserves and address strategic priorities.

In 2016, Free Horizon implemented updated salary schedules to provide a more competitive comprehensive compensation package for its employees. This decision continued into fiscal year 2017 in addition to a strategic decision to increase investment in staff training. Each of these areas thus showed increased expenses compared to 2016.

At the close of fiscal year 2017, Free Horizon Montessori's ending funds balance was $1,605,707, an increase of $113,120 from close of fiscal year 2016. This year's result continues the overall positive trend also observed at last three prior years' end position.

Overview of Financial Statements

This report follows the guidelines set forth in the GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

This discussion and analysis are intended to serve as an introduction to Free Horizon Montessori's basic financial statements. The Free Horizon Montessori basic financial statements are comprised of four components: 1) government-wide financial statements, 2) governmental fund financial statements, 3) notes to the financial statements, and 4) supplementary information.

Free Horizon Montessori's fiscal year follows that of its parent school district (Jefferson County School District R-1), and runs July 1 to June 30. The School Board of Directors in collaboration with School administration approves an annual appropriation budget each April for the coming school/fiscal year.

[1] http://www.gasb.org/resources/ccurl/988/315/GASBS%2068.pdf

Information within this audit report and associated discussions is presented on the School's General Fund, which is the major operational account for Free Horizon Montessori. Beginning in fiscal year 2012, Free Horizon Montessori no longer includes its separate Foundation financials in its reporting. All comparisons made here between current and prior years take this difference into account.

Free Horizon Montessori adopts an annual appropriated budget for its General Fund. A budget to actual comparison is included on page 28, showing end of year variances and net impact.

Included within the reporting of School assets are the FHM Building Corporation (FHMBC) accounts. The FHMBC was established in 2010 as a separate, passive corporation for the sole purpose of supporting the School's financing needs for lease/purchase the school building and grounds through commercial bonding. The holdings of the FHMBC ($631,270) are blended in as restricted assets within the School's Statement of Net Position (page 1), Government Fund Balance Sheet (page 3) and further discussed within the Notes (pages 6 and 13).

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of Free Horizon Montessori's assets and liabilities, with the difference between the two reported as net position (net assets). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Free Horizon Montessori is improving or deteriorating.

The Statement of Activities indicates how the School's fiscal year activities affected its net position during the most recent fiscal year. The Statement of Activities differentiates program revenues arising from services and grants from revenues generated through governmental sources (e.g., per pupil revenue and mill levy taxes passed through from the District, and funds received from the County and State). All changes in net position are recorded as soon as the underlying event is recognized, regardless of the timing of related cash flows (i.e., accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will not result in actual cash transactions until future fiscal periods (e.g. accounts receivable, uncollected grant awards, and earned but unpaid salary and benefits).

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. Free Horizon Montessori, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental funds statements account for essentially the same functions (reported therein as governmental activities) as do the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable (unassigned) resources. They also indicate 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 capacity.

The government fund financial statements can be found on pages 3-5 of this report.

Notes to the Financial Statements

The notes provide additional information and context essential to a full understanding of financial statements' data. This information is provided on pages 6-27.

Government-wide Financial Analysis

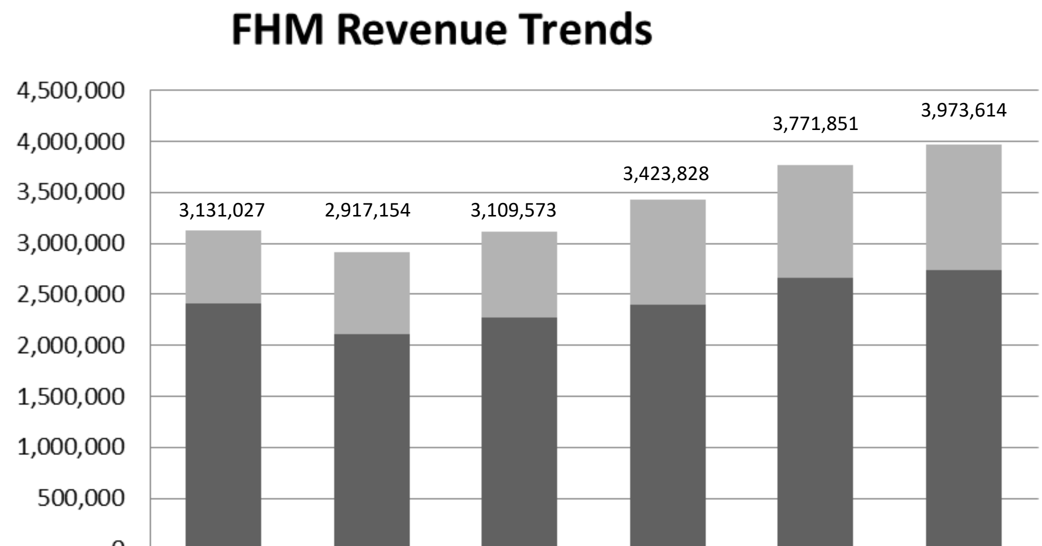
At the close of fiscal year 2017, Free Horizon Montessori's assets of $7,629,239 exceeded its short-term and debt service liabilities of $6,227,093. However, due to the requirements of GASB Statement 68, effective in fiscal year 2015, schools are now required to report their proportion of the overall PERA Net Pension Liability as a long-term liability. Net Pension Liability is a proportionate share of the deferred benefits committed by employers through the PERA pension plan. In 2017, Free Horizon Montessori's Net Pension Liability share is calculated at $12,242,207. The significant increase in the long-term net pension liability from prior years is due to an actuarial valuation as of December 31, 2014, and is further explained on pages 16-26 of this report. A reduction in this amount will be recognized in the upcoming year. This long-term liability increases FHM's total liabilities to $18,469,300, thus reducing its total net position to $(5,407,536) (see Statement of Net Position, page 1).

The largest portion of Free Horizon Montessori's assets totaling $5,660,285 (74.2 percent) is represented by its capital assets (e.g., school building and equipment). The balance of assets is comprised of cash and investments totaling $1,966,373 (25.8 percent) and accounts receivable totaling $2,581 (0.03 percent). There were no major construction projects during fiscal year 2017, and therefore, no gain in capital assets, but rather a decrease as accumulated depreciation began on improvements from the prior two years. This resulted in a decrease of $264,288 from fiscal year 2016.

Approximately 69 percent ($2,732,564) of the School's cash income was realized through governmental activities, including per pupil revenue, mill levy overrides, State provided capital construction funds, and other governmental sources. The smaller percentage of cash income, 31.2 percent ($1,241,050), was generated through the School's program service charges/fees and grants/donations.

Continuing the trend seen with the prior years, 2017 total revenue continues to increase and is slightly more distributed across sources; in 2016, governmental activity revenues accounted for 70.1 percent ($2,400,507) of total and program services accounted for 29.9 percent ($1,023,321). In 2015, governmental activity revenues accounted for 70.1 percent ($2,400,507) of total and program services accounted for 29.9 percent ($1,023,321). In 2014, governmental activity revenues accounted for 73.1 percent ($2,275,995) of total and program services accounted for 26.8 percent ($833,578). In 2013, governmental activity revenues accounted for 72.4 percent ($2,113,087) of total and program services accounted for 27.6 percent ($804,067) of total. In 2012, governmental activity revenues accounted for

76.8 percent ($2,404,852) of total and program revenues accounted for 23.2 percent ($726,175) of total. This information is also portrayed in the chart below:



	2012	2013	2014	2015	2016	2017
Program Services	726,175	804,067	833,578	1,023,321	1,106,482	1,241,050
Governmental Activitiy	2,404,852	2,113,087	2,275,995	2,400,507	2,665,369	2,732,564

Free Horizon Montessori's Net Position

	Governmental Activities as of 30 June	
	2017	**2016**
ASSETS		
Cash and Investments	$ 1,232,439	$ 1,131,451
Restricted Cash and Investments	$ 733,934	$ 727,628
Accounts Receivable	$ 2,581	$ 5,134
Capital Assets, Not Depreciated	$ 820,874	$ 820,874
Capital Assets, Net of Accumulated Depreciation	$ 4,839,411	$ 5,103,699
TOTAL ASSETS	$ 7,629,239	$ 7,788,786
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	$ 5,564,119	$ 1,319,885
LIABILITIES		
Accounts Payable	$ 18,189	$ 36,477
Accrued Salaries	$ 219,862	$ 200,582
Accrued Interest	$ 13,846	$ 13,816
Unearned Revenue	$ 125,196	$ 134,567
Noncurrent Liabilities		
Due in One Year	$ 125,000	$ 120,000
Due in More than One Year	$ 5,725,000	$ 5,850,000
Net Pension Liability	$ 12,242,207	$ 5,932,519
TOTAL LIABILITIES	$ 18,469,300	$ 12,287,961
DEFERRED INFLOWS OF RESOURCES		
Original Issue Premium	$ 83,058	$ 86,669
Related to Pensions	$ 48,536	$ 84,052
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 131,594	$ 170,721
NET POSITION		
Net Investment in Capital Assets	$ 461,161	$ 595,532
Restricted for Emergencies	$ 102,664	$ 96,612
Restricted for Working Capital	$ 617,424	$ 631,016
Unrestricted	$ (6,588,785)	$ (4,673,171)
TOTAL NET POSITION	$ (5,407,536)	$ (3,350,011)

Free Horizon Montessori's Change in Net Position

	Change in Net Position as of 30 June	
	2017	**2016**
Program Revenues		
Charges for Service	$ 971,652	$ 840,708
Operating Grants & Contributions	$ 269,398	$ 265,774
Total Program Revenue	$ 1,241,050	$ 1,106,482
General Revenues		
General Per Pupil Revenue	$ 2,243,611	$ 2,155,943
Mill Levy Override	$ 428,944	$ 417,162
Capital Construction Funds		$
Other	$ 60,009	$ 92,264
Special Item		
Capital Transfer from District	$ -	$ 587,290
Total General Revenue	$ 2,732,564	$ 3,252,659
Total Revenues	$ 3,973,614	$ 4,359,141
Expenses		
Governmental Activities	$ 3,435,936	$ 1,772,502
Instruction	$ 2,261,678	$ 2,233,866
Supporting Services	$ 333,525	$ 329,780
Interest on Long-Term Debt		
Total Governmental Activities	$ 6,031,139	$ 4,336,148
Change in Net Position	$ (2,057,525)	$ 22,993
Net Position		
Prior Period Adjustment	$ -	$ -
Beginning	$ (3,350,011)	$ (3,373,004)
Ending	$ (5,407,536)	$ (3,350,011)

Government Fund Financial Analysis

As noted earlier, Free Horizon Montessori uses fund accounting to ensure appropriate segregation of activities and demonstrate compliance with finance-related legal requirements. This includes maintaining sufficient reserve requirements for Bond financing covenants and TABOR reserves (see Notes, pages 13 and 27).

General Fund Budgetary Highlights

As of the end of fiscal year 2017, the School's governmental funds reported an ending fund balance of $1,605,707 an increase of $113,120 over the prior year.

Expected revenues were $102,564 (2.6%) higher than budgeted, due to higher actual enrollment of 309.74 FTE compared to the budgeted 308 FTE which brought in higher state PPR and local MLO. Tuition revenues were also higher than budgeted by $166,855 due to using a more conservative revenue planning model; the adjustment of the FRL kindergarten tuition relief model to a sliding scale and increased enrollment. Despite slightly higher salary and benefit expenditures, overall expenses were slightly lower ($10,557) than budgeted by due primarily to lower use of purchased services and materials and supplies. See page 28 of the report for additional detail.

Capital Asset and Debt Administration

Capital Assets. At close of fiscal year 2017, Free Horizon Montessori reported $5,660,285 in capital assets. This includes $264,288 in total accumulated depreciation. See page Note 4 of the report for additional detail.

Long-Term Lease Agreement

Free Horizon Montessori entered into a lease/purchase agreement with the Free Horizon Montessori Building Corporation in 2010 for acquisition of the school facility. The agreement is renewed annually under its original terms, and requires Free Horizon Montessori to make monthly lease payments against the debt service. For fiscal year 2017, these monthly lease payments averaged $38,092 and in aggregate make up the $457,106 in total annual Debt Service expenses for the year.

The associated Long Term Debt schedule is included Note 6 of the report.

In accordance with Bond covenants related with the lease/purchase agreement, the School agreed to maintain a repair and replacement reserve account to address facilities and grounds-related expenses above what its annual operating budget covers. Free Horizon Montessori historically paid $25,000 into this fund each year (approximately $2,083 each month) to reach a balance of $125,000. Once this balance is reached, it is maintained at this level. During fiscal year 2017, Free Horizon transferred in $4,681.16 to replenish the reserve by the amount utilized during fiscal year 2017 for capital needs. At the end of fiscal year 2017, the Repair & Replacement Fund balance was $125,009.

To comply with additional Bond covenants, the School maintains an operating capital reserves fund balance of not less than 8 percent of prior year's total operating expenses at the end of each fiscal year. For fiscal year 2017, this amount was $272,271.

Economic Factors and Next Year's Budget

Based on advice from the Colorado Department of Education, the School projects that Per Pupil Revenue (PPR) amounts will increase approximately 1.6 percent from $7,237 per FTE to $7,353. This projected increase is less than the inflationary factors applied to the School's expenses, thus the net impact of PPR increase is negligible for the coming fiscal year. However, the Jefferson County Board of Education's (BoE) budgeting decision to continue their commitment to equitable distribution of the voter-approved Mill Levy Override (MLO) revenues to charter schools will also help sustain revenues. Estimated fiscal year 2018 MLO revenues are $1,395 total per FTE, in line with the amount budgeted in fiscal year 2017.

Enrollment in Free Horizon Montessori's support programs (preschool, before/after care, summer camp, etc.) continued to grow, with modest, but constant revenue increases each year. Program growth is projected to continue into next fiscal year. Modest overall school growth is anticipated in fiscal year 2019 when the shift of Free Horizon Montessori's 6^{th} grade into its middle school program occurs. Preparation for this transition happens in fiscal year 2018 which includes the remodeling of the middle school area/classrooms to accommodate the growth; addition of a lower elementary classroom; and purchasing of furniture and materials. This may result in an increase in expenses in 2018 prior to revenue increases being realized in fiscal year 2019.

Continued implementation of strategic retention and staff development goals into fiscal year 2018 led to an increase in employer paid monthly health care premium above the minimum amount and an increase in budget for professional development days. There will also be an average 75 percent increase in classroom and materials budget as requested by staff during an annual budget survey conducted each fall.

Requests for Information

This report is designed to provide a general overview of Free Horizon Montessori's finances for those with an interest in the School's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Free Horizon Montessori, Attn: Miera Nagy, Director of Finance & Advancement, 581 Conference Place, Golden, CO 80401 or via email at mnagy@jeffcoschools.us.

BASIC FINANCIAL STATEMENTS

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF NET POSITION
As of June 30, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	$ 1,232,439	$ 1,131,451
Restricted Cash and Investments	733,934	727,628
Accounts Receivable	2,581	5,134
Capital Assets, Not Depreciated	820,874	820,874
Capital Assets, Net of Accumulated Depreciation	4,839,411	5,103,699
TOTAL ASSETS	7,629,239	7,788,786
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	5,564,119	1,319,885
LIABILITIES		
Accounts Payable	18,189	36,477
Accrued Salaries	219,862	200,582
Accrued Interest	13,846	13,816
Unearned Revenues	125,196	134,567
Noncurrent Liabilities		
Due in One Year	125,000	120,000
Due in More than One Year	5,725,000	5,850,000
Net Pension Liability	12,242,207	5,932,519
TOTAL LIABILITIES	18,469,300	12,287,961
DEFERRED INFLOWS OF RESOURCES		
Original Issue Premium	83,058	86,669
Related to Pensions	48,536	84,052
TOTAL DEFERRED OUTFLOWS OF RESOURCES	131,594	170,721
NET POSITION		
Net Investment in Capital Assets	461,161	595,532
Restricted for Emergencies	102,664	96,612
Restricted for Debt Service	617,424	631,016
Unrestricted	(6,588,785)	(4,673,171)
TOTAL NET POSITION	$ (5,407,536)	$ (3,350,011)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		PROGRAM REVENUES		NET (EXPENSE) REVENUE CHANGE IN NET POSITION	
				GOVERNMENTAL ACTIVITIES	
FUNCTIONS/PROGRAMS	EXPENSES	Charges for Services	Operating Grants and Contributions	2017	2016
PRIMARY GOVERNMENT					
Governmental Activities					
Instruction	$ 3,435,936	$ 971,652	$ 269,398	$ (2,194,886)	$ (666,020)
Supporting Services	2,261,678	-	-	(2,261,678)	(2,233,866)
Interest on Long-Term Debt	333,525	-	-	(333,525)	(329,780)
Total Governmental Activities	$ 6,031,139	$ 971,652	$ 269,398	(4,790,089)	(3,229,666)
	GENERAL REVENUES				
	PPR Revenue			2,243,611	2,155,943
	Mill Levy Override			428,944	417,162
	Other			60,009	92,264
	SPECIAL ITEM				
	Capital Transfer from the District			-	587,290
	TOTAL GENERAL REVENUES			2,732,564	3,252,659
	CHANGE IN NET POSITION			(2,057,525)	22,993
	NET POSITION, Beginning			(3,350,011)	(3,373,004)
	NET POSITION, Ending			$ (5,407,536)	$ (3,350,011)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	TOTAL GOVERNMENTAL FUNDS 2017	TOTAL GOVERNMENTAL FUNDS 2016
ASSETS		
Cash and Investments	$ 1,232,439	$ 1,131,451
Restricted Cash and Investments	733,934	727,628
Accounts Receivable	2,581	5,134
TOTAL ASSETS	$ 1,968,954	$ 1,864,213
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$ 18,189	$ 36,477
Accrued Salaries and Benefits	219,862	200,582
Unearned Revenues	125,196	134,567
TOTAL LIABILITIES	363,247	371,626
FUND BALANCES		
Restricted for Emergencies	102,664	96,612
Restricted for Debt Service	617,424	631,016
Unassigned	885,619	764,959
TOTAL FUND BALANCES	1,605,707	1,492,587
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	5,660,285	5,924,573
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is the Bonds outstanding of ($5,850,000), bond premium net of amortization ($83,058), and accrued interest on bonds of ($13,846).	(5,946,904)	(6,070,485)
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes the net pension liability of ($12,242,207), deferred outflows related to pensions of $5,564,119, and deferred inflows related to pensions of ($48,536).	(6,726,624)	(4,696,686)
Net position of governmental activities	$ (5,407,536)	$ (3,350,011)

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	TOTAL GOVERNMENTAL FUNDS	
	2017	2016
REVENUES		
Local Sources	$ 3,828,206	$ 3,640,380
State and Federal Sources	145,408	131,471
TOTAL REVENUES	3,973,614	3,771,851
EXPENDITURES		
Current		
Instruction	1,954,081	1,417,955
Supporting Services	1,449,307	1,860,703
Debt Service		
Principal	120,000	115,000
Interest	337,106	341,706
TOTAL EXPENDITURES	3,860,494	3,735,364
NET CHANGE IN FUND BALANCES	113,120	36,487
FUND BALANCES, Beginning	1,492,587	1,456,100
FUND BALANCES, Ending	$ 1,605,707	$ 1,492,587

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

FREE HORIZON MONTESSORI CHARTER SCHOOL

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

Year Ended June 30, 2017

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Changes in Fund Balances - Total Governmental Funds	$ 113,120
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense for the year	(264,288)
Some expenses reported in the statement of activities do not require current financial resources and are not reported in the funds. These are the principal payments on bonds, $120,000, amortization of bond premium $3,611, and the change in accrued interest payable ($30).	123,581
Deferred charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds, those amounts are capitalized and amortized.	(2,029,938)
Change in Net Position of Governmental Activities	$ (2,057,525)

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

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

The Free Horizon Montessori Charter School (the "School") was formed in 2002 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School is utilizing a Montessori curriculum.

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

Reporting Entity

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

The School includes the Free Horizon Montessori Building Corporation (the "Building Corporation") within its reporting entity. The Building Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing of the School's facilities. The Building Corporation is blended into the School's financial statements as part of the General Fund. Separate financial statements are not available for this entity.

The School is a component unit of Jefferson County School District No. R-1.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

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

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

The School reports the following major governmental funds:

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

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements, 15 years.

Unearned Revenues – Unearned revenues consist of tuition and fees that have been received during the year that are prepayments for the following school year.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

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

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

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

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

Net Investment in Capital Assets includes the School's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The School typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

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

- <u>Nonspendable</u> – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The School did not report amounts as nonspendable at June 30, 2017.

- <u>Restricted</u> – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The School has also classified Working Capital as restricted as their use is restricted by Bond Covenants.

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

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2017.

- 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 fund balances.

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, and bills the School for its portion of coverage. Settlements have not exceeded insurance coverage in the last three years.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

Budgets and Budgetary Accounting

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

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal yearend.

NOTE 3: ***CASH AND INVESTMENTS***

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

Pooled Cash with the District	$ 1,335,103
Investments	631,270
Total	**$ 1,966,373**

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

Cash and Investments	$ 1,335,103
Restricted Cash and Investments	631,270
Total	**$ 1,966,373**

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations.

At June 30, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

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

Deposits (Continued)

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits as most of the School's funds are held by the District.

The School does not have any deposits as of June 30, 2017.

Pooled Cash with District

Cash deposits are pooled with the District cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2017, the School’s balance in equity in both restricted and unrestricted pooled cash of the District totaled $1,335,103.

Investments

Interest Rate Risk

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

Credit Risk

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

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

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

Investments (Continued)

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District invested $631,270 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.

The School has no policy for managing credit risk or interest rate risk; however they are required to follow the policies of the District as all funds are maintained by the District.

Restricted Cash and Investments

Cash and investments of $631,270 are restricted in the General Fund for debt servicing and bond reserves and $102,664 for declared emergencies under the TABOR amendment.

NOTE 4: *CAPITAL ASSETS*

Capital Assets activity for the year ended June 30, 2017, is summarized below.

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital Assets, Not Depreciated				
Land	$ 820,874	$ -	$ -	$ 820,874
Capital Assets, Being Depreciated				
Leasehold Improvements	1,378,470	-	-	1,378,470
Buildings	4,865,731	-	-	4,865,731
Equipment	65,698	-	-	65,698
Total Capital Assets, Being Depreciated	6,309,899	-	-	6,309,899
Accumulated Depreciation				
Leasehold Improvements	408,757	71,283	-	480,040
Buildings	752,527	185,508	-	938,035
Equipment	44,916	7,497	-	52,413
Total Accumulated Depreciation	1,206,200	264,288	-	1,470,488
Net Capital Assets, Depreciated	5,103,699	264,288	-	4,839,411
Net Capital Assets	**$ 5,924,573**	**$ 264,288**	**$ -**	**$ 5,660,285**

Depreciation has been charged to the Supporting Services program of the School.

NOTE 5: *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, as of June 30, 2017, were $219,862. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6: ***LONG-TERM DEBT***

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due In One Year
Building Lease	**$ 5,970,000**	**$ -**	**$ 120,000**	**$ 5,850,000**	**$ 125,000**

Building Lease

July 6, 2010, the Colorado Educational and Cultural Facilities Authority issued $6,550,000 in Charter School Revenue Bonds, Series 2010 for the Free Horizon Montessori School Project. Proceeds of the bond were loaned to the School under a lease agreement to exercise the purchase option for the School's building. The School has created the Free Horizon Montessori Charter School Building Corporation to purchase the building and to service the debt. The School is required to make equal lease payments to the Building Corporation for use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 2% to 6%. The bonds mature in December 2040.

Future debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 125,000	$ 332,306	$ 457,306
2019	130,000	327,306	457,306
2020	135,000	322,106	457,106
2021	140,000	316,706	456,706
2022	150,000	309,706	459,706
2023 – 2027	870,000	1,428,530	2,298,530
2028 – 2032	1,135,000	1,179,020	2,314,020
2033 – 2037	1,530,000	793,494	2,323,494
2038 – 2040	1,635,000	231,832	1,866,832
Total	**$ 5,850,000**	**$ 5,241,006**	**$ 11,091,006**

NOTE 7: ***DEFINED BENEFIT PENSION PLAN***

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

Benefits provided. 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.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned.

If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007, and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled. Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

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

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer Contribution Rate[1]	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	4.50%	5.00%
Total Employer Contribution Rate to the SCHDTF[1]	18.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were $396,868 for the year ended June 30, 2017.

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 liability of $12,242,207 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the School's proportion was 0.04111%, which was an increase of 0.00233% from its proportion measured as of December 31, 2015.

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)

For the year ended June 30, 2017, the School recognized pension expense of $2,426,806. 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
Difference between expected and actual experience	$152,555	$48
Net difference between projected and actual earnings on pension plan investments	$ 359,378	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$691,732	N/A
Changes in assumptions and other inputs	$4,198,900	$48,488
Contributions subsequent to the measurement date	$161,554	N/A
Total	$5,564,119	$48,536

$161,554 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, 2018. 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,	
2018	$1,229,599
2019	$2,073,722
2020	$1,904,936
2021	$145,772

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)

Actuarial assumptions. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

Based on the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016, and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10 %
Wage inflation	3.50 %
Salary increases, including wage inflation	3.50 – 9.70 %
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 %
Discount rate	5.26 %
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 %
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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)

Mortality rates used in the December 31, 2015, valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013, and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016, to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

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

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

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

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

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)

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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. As a result of the October 28, 2016, actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.

- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.

- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.

- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

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

These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 18, 2016, adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table.

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%	.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%	.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%.

Discount rate. The discount rate used to measure the total pension liability was 5.26 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 economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

- 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%.

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)

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

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

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

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)

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	$15,394,182	$12,242,207	$9,675,038

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

NOTE 7: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Other Post-Employment Benefits

Health Care Trust Fund

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

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016, and 2015, the School's employer contributions to the HCTF were \$19,381, \$18,490, and \$14,384, respectively, equal to their required contributions for each year.

NOTE 8: ***COMMITMENTS AND CONTINGENCIES***

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

NOTE 8: ***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 tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2017, the reserve of $102,664 was recorded as a reservation of cash and investments in the General Fund.

NOTE 9: ***DEFICIT NET POSITION***

The Net Position of the government type activities is in a deficit position of $5,407,536 due to the School including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

FREE HORIZON MONTESSORI CHARTER SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2017

	2017			
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2016 ACTUAL
REVENUES				
Local Sources				
Per Pupil Revenue	$ 1,763,249	$ 2,243,611	$ 480,362	$ 2,155,943
Mill Levy Override	414,929	428,944	14,015	417,162
Tuition	766,500	933,355	166,855	750,288
Charges for Services	172,040	38,297	(133,743)	90,420
Donations	120,200	123,990	3,790	134,303
Other	473,123	59,756	(413,367)	92,181
Interest	80	253	173	83
State Sources				
Grants and Donations	160,929	145,408	(15,521)	131,471
TOTAL REVENUES	3,871,050	3,973,614	102,564	3,771,851
EXPENDITURES				
Salaries	2,122,538	2,155,382	(32,844)	2,038,077
Employee Benefits	543,463	549,491	(6,028)	517,326
Purchased Services	602,347	579,683	22,664	554,381
Supplies and Materials	145,580	118,733	26,847	168,874
Other	-	99	(99)	-
Debt Service				
Principal	120,417	120,000	417	115,000
Interest	336,706	337,106	(400)	341,706
TOTAL EXPENDITURES	3,871,051	3,860,494	10,557	3,735,364
NET CHANGE IN FUND BALANCE	(1)	113,120	113,121	36,487
FUND BALANCE, Beginning	1,485,623	1,492,587	6,964	1,456,100
FUND BALANCE, Ending	$ 1,485,622	$ 1,605,707	$ 120,085	$ 1,492,587

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DIVISION TRUST FUND

Years Ended December 31,

	2013	2014	2015	2016
School's proportionate share of the Net Pension Liability	0.032%	0.034%	0.039%	0.041%
School's proportionate share of the Net Pension Liability	$ 4,096,322	$ 4,562,049	$ 5,932,519	$ 12,242,207
School's covered-employee payroll	$ 1,197,555	$ 1,308,249	$ 1,602,610	$ 1,891,070
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	342.1%	348.7%	370.2%	647.4%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%

See the accompanying independent auditors' report.

FREE HORIZON MONTESSORI CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016	2017
Statutorily required contributions	$ 224,444	$ 269,301	$ 323,812	$ 396,868
Contributions in relation to the Statutorily required contributions	224,444	269,301	323,812	396,868
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 1,194,257	$ 1,410,193	$ 1,812,732	$ 1,900,125
Contributions as a percentage of covered-employee payroll	18.79%	19.10%	17.86%	20.89%

See the accompanying independent auditors' report.