

cPa DIXON, WALLER & CO., INC.

EAST OTERO

SCHOOL DISTRICT NUMBER R-1

LA JUNTA, COLORADO

FINANCIAL STATEMENTS

JUNE 30, 2016

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DIXON, WALLER & CO., INC.

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FINANCIAL STATEMENTS
JUNE 30, 2016**

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**EAST OTERO SCHOOL DISTRICT NUMBER R-1 DISTRICT NUMBER R-1
ROSTER OF SCHOOL OFFICIALS
June 30, 2016**

BOARD OF EDUCATION

Jeff Reeder	President
Jeff Paolucci	Vice-President
Angela Ayala	Secretary
Jolene Hyatt	Treasurer
Rod Fouracre	Member

SCHOOL OFFICIALS

Rick Lovato	Superintendent
Merinda Reisch	Business Manager

FINANCIAL SECTION

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TRINIDAD, COLORADO 81082
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INDEPENDENT AUDITOR'S REPORT

**Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Otero School District Number R-1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, each major fund, and the aggregate remaining fund information of East Otero School District Number R-1, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension trend data on pages i through xiii and 39 through 43 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Otero School District Number R-1's basic financial statements. The combining and individual fund financial statements, other schedules, and state required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining and individual fund financial statements, other schedules, state required schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, other schedules, state required schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, on our consideration of East Otero School District Number R-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Otero School District Number R-1's internal control over financial reporting and compliance.



February 21, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

EAST OTERO SCHOOL DISTRICT R-1

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LA JUNTA, CO 81050
(719) 384-6900 FAX (719) 384-6910



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of East Otero School District R-1, we offer readers of the District's annual financial statements this narrative overview and analysis of the financial activities during the fiscal year ended on June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The regulations of GASB 68 require the net pension obligation to be presented on the financial statements. Because of GASB 68, the liabilities of the District exceeded its assets at the close of the fiscal year by \$5,253,175. Unrestricted net position of the district is a negative \$14,590,634.
- The District's financial status increased over the course of the 2016 fiscal year. Total net position increased 6.4 percent.
- General revenues, primarily property taxes and state equalization payments, account for approximately \$11.1 million or 76 percent of all revenues. Program specific revenues for services, grants, and contributions accounted for \$3.6 million or 24 percent of \$14.7 million in total revenues.
- The District had \$14.2 million in expenses related to governmental activities; only \$3.6 million of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$11.1 million were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

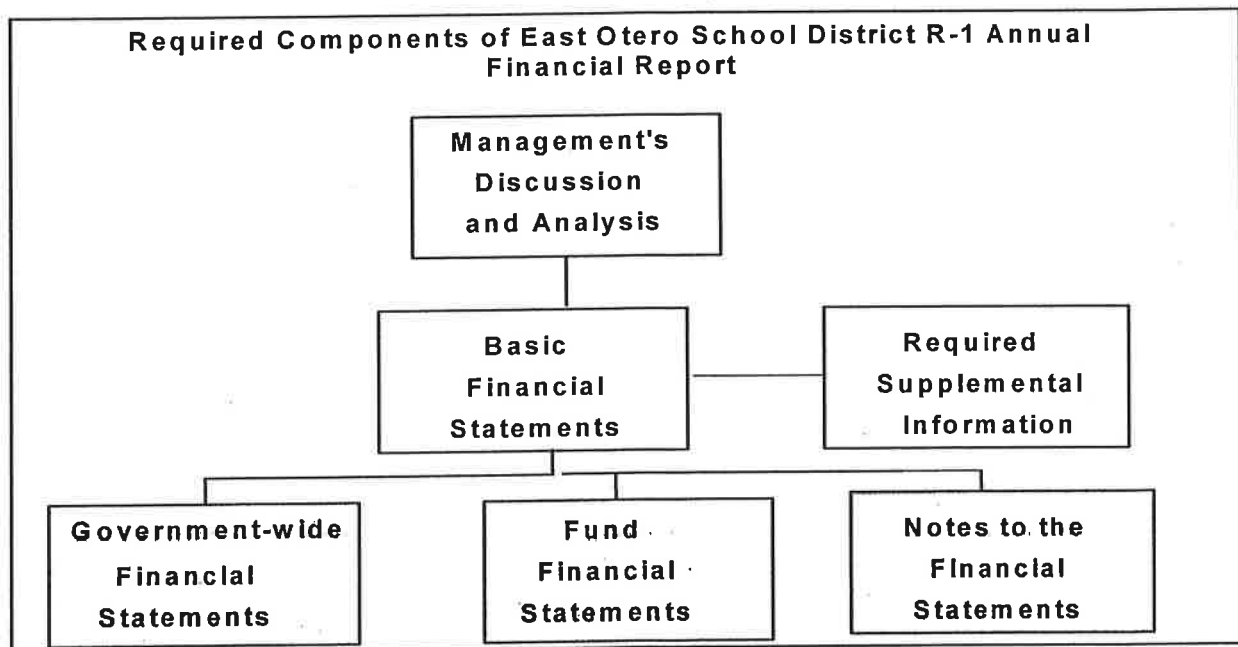
This discussion and analysis serves as an introduction to East Otero School District R-1's basic financial statements. The basic financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary/Enterprise fund statements offer short and long term financial information about the activities that the district operates like businesses, such as food service.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The Flow Chart (Figure A-1) below shows how the required parts of this annual report are arranged and how they relate to one another.



A-1

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of East Otero School District R-1 Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District government (except fiduciary funds and the districts component units)	The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the District operates similar to private businesses, ie. the food service operation.	Instances in which the District is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Fund Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

A-2

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. They consist of two statements:

The statement of net position presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position of the District during the fiscal year 2015-2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods. Earned but unused vacation leave and uncollected taxes are examples of these types of items.

The government-wide financial statements of the District are reported as follows:

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance

counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.), food service and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

- **Business-type Activities** – As of July 1, 2014, the State of Colorado reclassified the Food Service Fund as a special revenue fund, thereby being included in government funds. The district no longer has any business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All District funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

East Otero School District R-1 maintains five individual governmental funds. Information is presented separately in the governmental fund - balance sheet and in the governmental fund - statement of revenues, expenditures and changes in fund balances for the (1) General Fund (2) Bond Redemption Fund (3) Special Revenue Funds (a) Governmental Designated (b) Capital Reserve Fund (4) Capital Projects Building Fund. Also included in the supplementary information section is budget-to-actual information for the Debt Service Fund as required by law.

Proprietary Funds – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. As of July 1, 2014, the district does not have any proprietary funds.

Fiduciary Funds - Funds used to account for resources held for the benefit of parties outside the District, such as scholarship funds and Agency funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The district maintains only one fiduciary fund, which is categorized as an agency fund. This is the Agency fund and there will be no statement of changes in the net position as it is not required.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-38 of this report.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. Supplementary information includes combining statements mentioned earlier in connection with non-major governmental funds as well as budget-to-actual information for all funds as dictated by state law. Budgetary comparison schedules have been provided on pages 39-51 for the General, Capital Projects, Bond Redemption, Special Revenue and Agency Funds to demonstrate compliance.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

This section will explain the differences between the current and prior year's assets, liabilities, and changes in net position.

Table A-3 below provides a summary of the District's net position as of June 30, 2016.

East Cleo School District R-1
Condensed Statement of Net Position as of June 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
Current & other assets	\$ 8,522,688	\$ 9,998,666	\$ -	\$ -	\$ 8,522,688	\$ 9,998,666
Capital assets	\$ 10,220,750	\$ 10,316,748	\$ -	\$ -	\$ 10,220,750	\$ 10,316,748
Total assets	\$ 18,743,448	\$ 20,315,404	\$ -	\$ -	\$ 18,743,448	\$ 20,315,404
Other liabilities	\$ 1,685,169	\$ 2,600,323	\$ -	\$ -	\$ 1,685,169	\$ 2,600,323
Long-term debt outstanding	\$ 22,667,969	\$ 22,968,256	\$ -	\$ -	\$ 22,667,969	\$ 22,968,256
Total liabilities	\$ 24,353,138	\$ 25,568,579	\$ -	\$ -	\$ 24,353,138	\$ 25,568,579
Net position						
Invested in capital assets	\$ 5,905,872	\$ 6,672,717	\$ -	\$ -	\$ 5,905,872	\$ 6,672,717
Restricted	\$ 2,720,151	\$ 2,664,742	\$ -	\$ -	\$ 2,720,151	\$ 2,664,742
Unrestricted	\$ (14,235,713)	\$ (14,590,634)	\$ -	\$ -	\$ (14,235,713)	\$ (14,590,634)
Total net position	\$ (5,609,690)	\$ (5,231,175)	\$ -	\$ -	\$ (5,609,690)	\$ (5,231,175)

The statement of net position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one

year and the amount due in more than one year. The long-term liabilities of the district, consisting of compensated absences payable, early retirement benefits payable and capital outlay certificates payable have been reported in this manner on the statement of net position. The difference between the district's assets and liabilities is its net position.

Changes in Net Position

The change in revenue and expenditures for governmental activities is overall insignificant.

The District's revenues totaled \$14,697,129. (See Table A-4) Approximately 19 percent of the District's revenue came from property and other taxes, with 56 percent coming from state funding. (See Figure A-5)

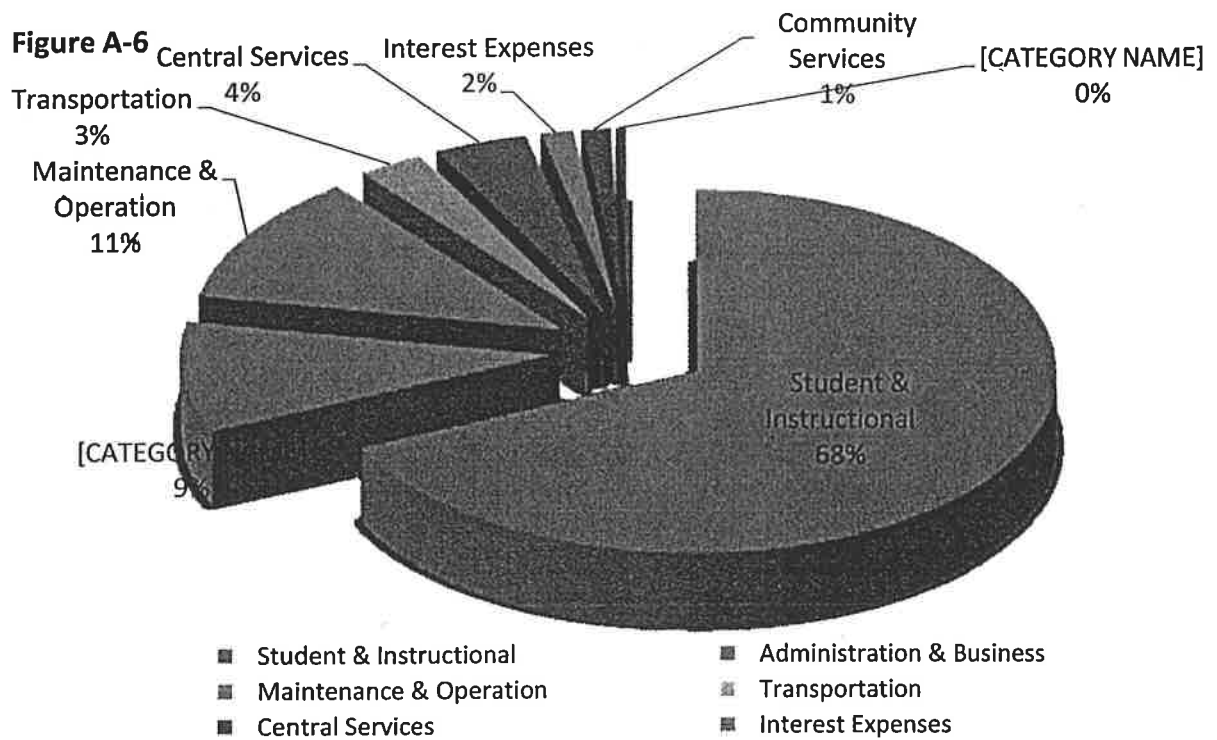
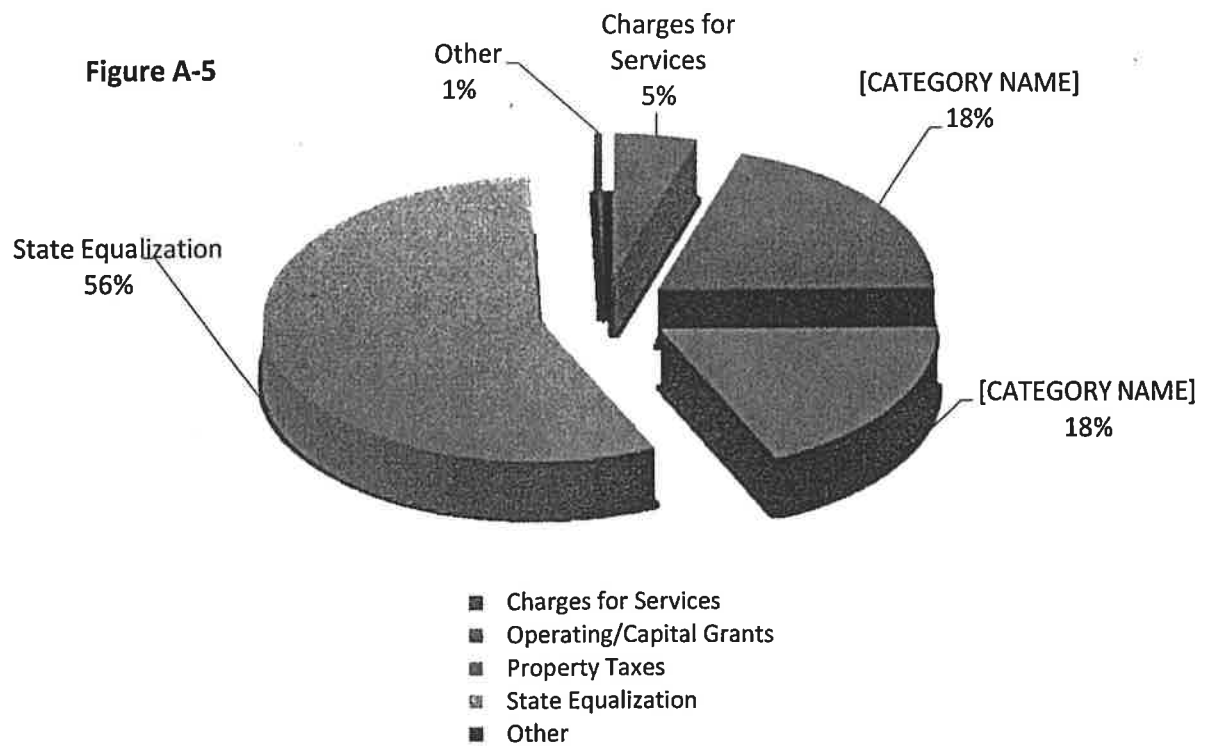
The total cost of all programs and services was \$14,186,504. The District's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A6)

East Otero School District R-1

Condensed Statement of Changes in Net Position as of June 30, 2016

	Governmental Activities		Business Type Activities		Total	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
Revenues						
Charges for Services	\$ 770,748	\$ 710,529	\$ -	\$ -	\$ 770,748	\$ 710,529
Operating/Capital Grants	2,568,156	2,932,883	-	-	2,568,156	2,932,883
General Revenues						
Property Taxes	2,453,694	2,703,271			2,453,694	2,703,271
State Equalization	8,047,051	8,273,796			8,047,051	8,273,796
Other	24,045	76,650	-	-	24,045	76,650
Total Revenues	\$ 13,863,694	\$ 14,697,129	\$ -	\$ -	\$ 13,863,694	\$ 14,697,129
Expenses						
Instruction	7,962,431	7,723,599			7,962,431	7,723,599
Student & Instructional	1,090,341	923,939			1,090,341	923,939
Administration & Business	1,252,733	1,242,917			1,252,733	1,242,917
Maintenance & Operation	1,506,918	1,451,096			1,506,918	1,451,096
Transportation	393,420	373,465			393,420	373,465
Central Services	507,706	525,652			507,706	525,652
Interest Expenses	208,263	187,791			208,263	187,791
Community Services	167,126	169,009			167,126	169,009
Pension Amortization	108,395	418,352			108,395	418,352
Capital Outlay	35,866	59,978			35,866	59,978
Food Services	1,000,768	1,110,706	-	-	1,000,768	1,110,706
Total Expenses	14,233,967	14,186,504	-	-	14,233,967	14,186,504
Inc(Dec) Net Position	\$ (370,273)	\$ 510,625	\$ -	\$ -	\$ (370,273)	\$ 510,625
Beg. Net Position - Restated	\$ (5,304,502)	\$ (5,609,690)	\$ -	\$ -	\$ (5,304,502)	\$ (5,609,690)
Prior Year Adjustment	\$ 65,085	\$ (154,110)			\$ 65,085	\$ (154,110)
Ending Net Position	\$ (5,609,690)	\$ (5,253,175)	\$ -	\$ -	\$ (5,609,690)	\$ (5,253,175)

A-4



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994. Under this act, the District received \$7,702 per funded student. In fiscal year 2015-2016, the funded pupil count was 1311.5. Funding for the School Finance Act comes from property taxes, specific ownership taxes and state equalization. The District received approximately 56 percent of its funding from state equalization and 19 percent came from property taxes and specific ownership tax.

The statement of activities provides the cost of program services and the related charges for services and grants offsetting those costs. A-7 reflects each program's net cost (total cost less fees generated by the programs and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these programs.

Table A-7

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,723,599	\$6,522,542
Student Support	587,687	258,421
Instruction Services	336,252	144,160
Administration & Business	1,242,917	1,230,901
Maintenance & Operation	1,451,096	1,438,383
Transportation	373,465	322,786
Central Services	525,652	500,104
Community Services	169,009	169,009
Capital Outlay	59,978	(672,249)
Int Exp/Pension Amort	606,143	606,143
Food Services	1,110,706	22,892
Total	<u>\$14,186,504</u>	<u>\$10,543,092</u>

The cost of all governmental activities this year was \$14.2 million.

Some of the costs were financed by users of the Districts programs. Revenues in this category include items such as building rental income, concurrent enrollment tuition and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

General Fund

The General Fund is the major operating fund of the District, providing the majority of the resources for the educational and support programs. The School Board approves a budget in June based on enrollment projections for the following school year. In October and in January, the School Board can approve a revised issuance of the budget. The primary reason for revision is an updated ending fund balance figure and updated financial information.

Actual revenues for the General fund totaled \$10,468,291. The actual expenditures of \$10,247,238 were below budget primarily due to \$3.0 million budgeted from fund balance for unplanned expenditures (contingency reserve). The \$3,934,244 fund balance as of June 30, 2016 includes \$360,100 reserved for TABOR. The budgetary basis differs from generally accepted accounting principles (GAAP) in the treatment of accrued salaries, benefits and related liabilities. According to state statutes, the accrued salaries and related benefits do not need to be "funded" and, therefore, are not subtracted from budgetary basis fund balance.

Bond Redemption Fund

In November of 2008, a bond issue of \$4,300,000.00 was passed to build a new athletic stadium. This bond issue will be repaid by extending the current bond levy. District voters approved a refunding of the Districts 1995 and 1996 series general obligation bonds for \$3,694,995.95. As previously noted in the financial highlights the refunding resulted in saving taxpayers approximately \$237,000 between 2003 and 2015 without increasing the repayment term. Revenues received from the mill levy were \$12,888 less than the expenditures leaving a fund balance of \$2,116,710 in this fund. This fund balance will enable the District to meet the payment requirements.

Grant Fund – Special Revenue

The District currently has twenty different grants that are maintained in the special revenue fund. The proceeds of specific revenue sources are legally restricted to expenditures for specified purposes. The grants are set up to account for state funding sources, local funding sources and federal funding sources.

The District reported \$1,133.168 in federal revenue sources, and state revenues of \$75,822.

The majority of the state grants have expenditures that exceed the revenue received from the state so transfers of \$1,100,429 were made from the General Fund to provide funding equivalent to the expenditures.

Special Revenue Fund expenditures are shown below in Table A-4 as dollars and the related percent based on program.

Table A-4

**East Otero School District R-1
Expenditures of Grant Special Revenue Fund**

	Actual Expenditures	Percent of Total Expenditures
Instruction	\$ 1,750,497	75.8%
Student Support	329,266	14.3%
Instructional Support	192,092	8.3%
Business Support	12,016	0.5%
Other Support Services	25,548	1.0%
Total	<u>\$ 2,309,419</u>	<u>100.0%</u>

Capital Reserve Fund

The Capital Reserve Fund was established by state statutes with the primary source of funding being a per pupil allocation from the school finance act total program funding. In 2009-2010 the requirement to allocate funds was no longer required. Funds that are remaining in the Capital Reserve Fund must remain in the fund until expended on capital items. The District received Best Grant funds during the year to substantially fund two Best Grant projects. The projects require a 10% funding match by the District. The projects are ongoing and will be completed during the 2015-2016 school year. The Capital Reserve Fund has an ending fund balance of \$35,032.

Other Governmental Funds

This consists of the Student Activities Fund, the Capital Projects Building Fund and the Food Service Fund. The Student Activities Fund has an ending fund balance of \$148,884, the Capital Projects Building Fund has an ending fund balance of \$439,867 and the Food Service Fund has an ending fund balance of \$65,449.

BUDGETARY HIGHLIGHTS

The final fiscal year 2015-2016 budget adopted by the Board of Education for the District as a whole totaled appropriation of \$14.7 million. The following budget appropriations are without the reserve: General Fund appropriations of \$11.5 million, Capital Reserve & Project Funds appropriation of \$1.2 million, Bond Redemption Fund appropriations of \$.8 million, Special Revenue Funds appropriations of \$.9 million, Food Service Fund appropriations of \$.9 million, and other governmental fund appropriations of \$.5 million. There were no significant budget changes or budget variances for the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2016, the District had invested \$28.6 million in a broad range of capital assets, including, land, buildings, various machinery, vehicles, and equipment. This amount represents a net increase (including additions and deductions) of \$821,763. Items that have been on the Capital Assets listing, that the District no longer has, were written off this year.

Land & Improvements	\$ 931,739
Buildings & Site Improvements	24,176,230
Vehicles & Equipment	3,554,274
Total Funds Capital Assets	<u>\$ 28,662,243</u>

LONG-TERM DEBT

District voters approved a general obligation bond of \$5,915,000 in 1995. Voters approved a general obligation bond of \$70,000 in 1996. In 2003 district voters approved a partial refunding of the District's 1995 and 1996 series general obligation bonds for \$3,694,995.95. In November of 2008 the voters passed a new bond issue for \$4.3 million. The voters authorized the continuance of the current mill levy until the bond issues are paid. The mill levy will provide property tax revenue sufficient to pay principal and interest as required by the bond amortization schedules. The District entered into a capital lease with an option to purchase agreement for \$165,000 in June of 2014 to relocate the central office to 301 Raton Ave. At the end of the 2015-2016 fiscal year, the District had total general obligation debt outstanding of \$3,560,000 including \$205,000 due within the next 12 months. Detailed information on debt administration can be found in Note 7 in the Notes to the Basic Financial Statements.

The District is liable for the discretionary and vacation accrued compensated absences as per policy. The liability for June 30, 2016 is \$26,979.

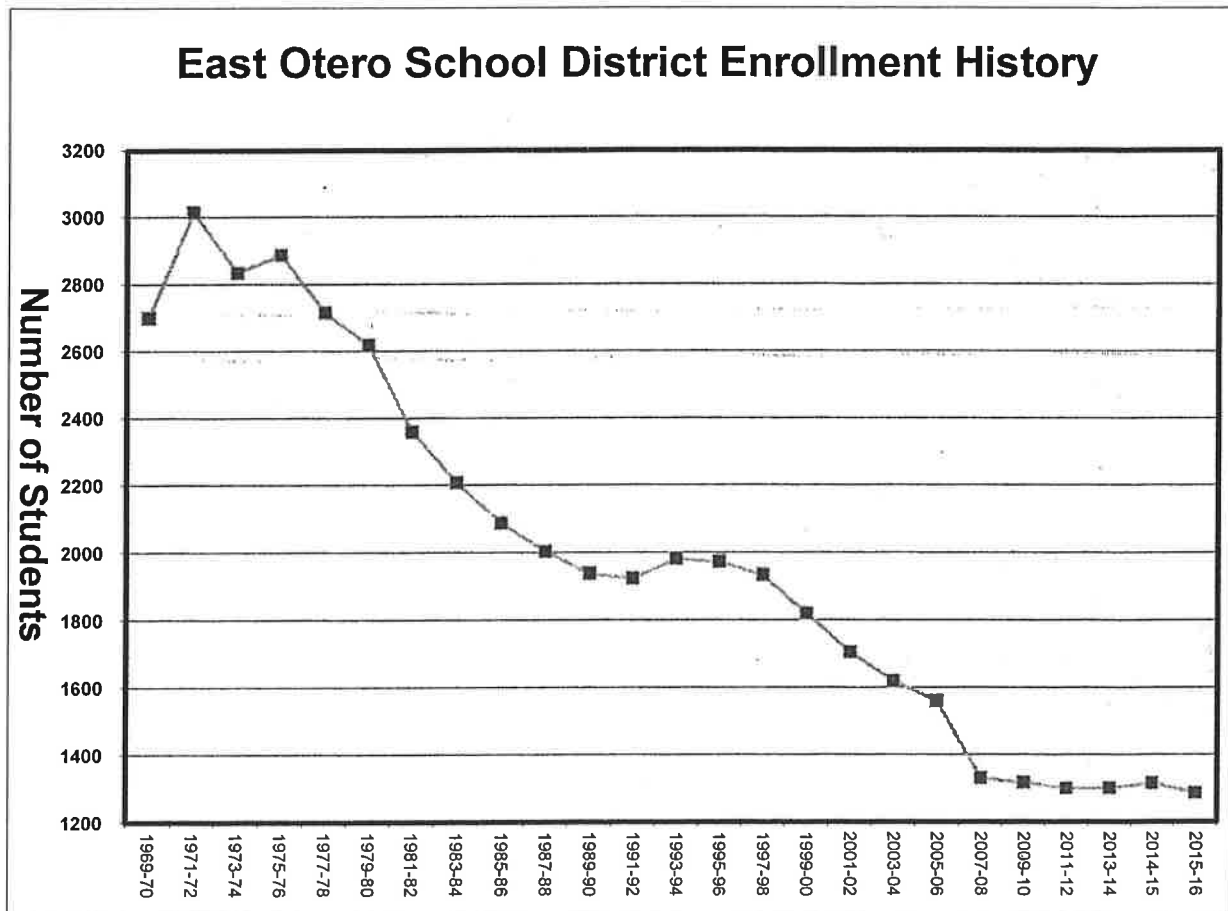
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future.

Information from the 2015-2016 student enrollment "October count" shows that East Otero School District R-1 has approximately 135 less students than the prior year. The district's enrollment for the last six years is shown in the table at the top of the next page.

	Actual 10/11 FY	Actual 11/12 FY	Actual 12/13 FY	Actual 13/14 FY	Actual 14/15 FY	Actual 15/16 FY
At Risk Grades 1-12	862.4	811.9	881.8	885.4	907.5	907.9
Total Oct. 1 Certified Pupil Count	1253.5	1253.0	1265.0	1254.5	1270.0	1240.0
Total Funded Pupil Count	1365.3	1330.5	1320.0	1314.7	1322.5	1311.5

An impact of economic slowing is the reduction in the District's general fund revenues. Educational expenditures represent a significant portion of the State of Colorado's total expenditures and the State uses the October Count for State Equalization payments, the District anticipates its revenues will continue to be adversely impacted due to the economic downturn in state revenues. For 2008-2009 the General Assembly rescinded \$53,358 for the District. For 2009-2010 the General Assembly rescinded \$237,510 in what was called a state budget stabilization factor. This year the stabilization factor was a total of \$1,325,381. Starting in 2008-2009 the mill levy was frozen at the 2007-2008 level for tax funding. The minimum budget have been removed. The General Assembly has frozen the funding of full day kindergarten at 58%. The District long range planning, with the hopeful leveling of the loss of pupils, includes decreased staff via attrition and other measures to effectively reallocate resources to positively impact student achievement while maintaining an adequate fund balance. For the 2010-2011 school year this included closing one of the four facilities and merging classes into a 3-6 school and a Jr/Sr high school. Over the last five years, enrollment has been stable.



Since the school year of 2001-2002, Colorado issued annual report cards for every public school in the state. The scores are now listed on the Colorado Department of Education website. The School Accountability report rates each school based upon student performance on the newly state mandated Partnership for Assessment of Readiness for College and Careers (PARCC). PARCC was administered to all third through 11th grade students in English Language Arts. All students in third through eighth grade, Algebra 1, Geometry and Algebra II, were assessed in math. State mandated electronic testing for the 2014-2015 fiscal year was the Colorado Measures of Academic Success (CMAS) for science and social studies. During the school year, this series of science and social studies testing was administered to fourth and seventh graders in social studies, fifth and eighth graders in science, and 12th graders in science. The District is aggressively and successfully perusing increased academic performance for all students. Fiscal management via reallocation of resources based on student performance data is a key piece of the district reform movement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent, East Otero School District R-1, 301 Raton Avenue, La Junta, CO 81050.

Respectfully,

Merinda K. Reisch, MSA
Business Manager

BASIC FINANCIAL STATEMENTS

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Investments	7,190,638	7,190,638
Property Taxes Receivable	144,726	144,726
Accounts Receivable	65,230	65,230
Accrued Revenue	158,945	158,945
<u>Total Current Assets</u>	<u>7,559,539</u>	<u>7,559,539</u>
<u>Capital Assets:</u>		
Land	257,210	257,210
Construction in Progress	-	-
Depreciable Assets	28,405,033	28,405,033
Accumulated Depreciation	(18,345,495)	(18,345,495)
<u>Capital Assets Net of Depreciation</u>	<u>10,316,748</u>	<u>10,316,748</u>
<u>TOTAL ASSETS</u>	<u>17,876,287</u>	<u>17,876,287</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Deferred Pension Cost - Plan	1,914,715	1,914,715
Deferred Pension Cost - Employer	-	-
Deferred Pension Cost - Contributions Subsequent to Pension Measurement Date	524,402	524,402
<u>Total Deferred Outflow of Resources</u>	<u>2,439,117</u>	<u>2,439,117</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	215,330	215,330
Accrued Salaries Payable	501,454	501,454
Accrued Interest	7,761	7,761
Unearned Grant Payments	52,107	52,107
Capital Lease Payable - Current	26,900	26,900
General Obligation Bonds - Current	205,000	205,000
Bond Premium - Current	5,677	5,677
<u>Total Current Liabilities</u>	<u>1,014,229</u>	<u>1,014,229</u>
<u>Noncurrent Liabilities:</u>		
Capital Lease Payable	57,131	57,131
General Obligation Bonds	3,355,000	3,355,000
Bond Premium	37,622	37,622
Not Pension Liability	19,491,524	19,491,524
Compensated Absences	26,979	26,979
<u>Total Noncurrent Liabilities</u>	<u>22,968,256</u>	<u>22,968,256</u>
<u>TOTAL LIABILITIES</u>	<u>23,982,485</u>	<u>23,982,485</u>
<u>DEFERRED INFLOW OF RESOURCES</u>		
Deferred Pension Cost - Plan	276,261	276,261
Deferred Pension Cost - Employer	1,309,833	1,309,833
<u>Total Deferred Outflow of Resources</u>	<u>1,586,094</u>	<u>1,586,094</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	6,672,717	6,672,717
Restricted for:		
Capital Outlay	35,032	35,032
Debt Service	2,116,710	2,116,710
TABOR	360,100	360,100
Preschool	87,451	87,451
Food Services	65,449	65,449
Unrestricted	(14,590,634)	(14,590,634)
<u>TOTAL NET POSITION</u>	<u>(5,253,175)</u>	<u>(5,253,175)</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net (Expenses) Revenue and Changes in Net Position					
	Program Revenues			Primary Government	
	Charges for Services	Operating Grants & Contributions	Capital Grants and Contributions	Governmental Activities	Total
FUNCTIONS/PROGRAMS					
Primary Government:					
Governmental Activities					
Instruction	7,723,599	717,717	-	(6,522,542)	(6,522,542)
Student Support	587,687	329,266	-	(258,421)	(258,421)
Instructional Staff	336,252	192,092	-	(144,160)	(144,160)
General Administration	396,987	-	-	(396,987)	(396,987)
School Administration	711,959	-	-	(711,959)	(711,959)
Business Support	133,971	12,016	-	(121,955)	(121,955)
Operation & Maintenance	1,451,096	12,713	-	(1,438,383)	(1,438,383)
Student Transportation	373,465	50,679	-	(322,786)	(322,786)
Central Support	525,652	25,548	-	(500,104)	(500,104)
Food Services	1,110,706	214,476	873,338	(22,892)	(22,892)
Community Services	169,009	-	-	(169,009)	(169,009)
Capital Outlay	59,978	-	732,227	672,249	672,249
Interest Expense	187,791	-	-	(187,791)	(187,791)
Pension Expense	418,352	-	-	(418,352)	(418,352)
Total Governmental Activities	14,186,504	710,529	2,200,656	(10,543,092)	(10,543,092)
Total Primary Government	14,186,504	710,529	2,200,656	(10,543,092)	(10,543,092)
General Revenues					
Local Property Taxes				2,243,357	2,243,357
Specific Ownership Taxes				459,914	459,914
School Finance Act				8,273,796	8,273,796
Earnings on Investments				18,008	18,008
Other				58,642	58,642
Total General Revenues				11,053,717	11,053,717
Change in Net Position				510,625	510,625
Net Position, Beginning				(5,609,690)	(5,609,690)
Prior Year Adjustment				(154,110)	(154,110)
Net Position, Ending				(5,253,175)	(5,253,175)

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General</u>	<u>Grants Special Revenue Fund</u>
<u>ASSETS</u>		
Cash and Investments	4,428,469	-
Property Taxes Receivable	100,527	-
Accounts Receivable	27,993	-
Accrued Revenue	-	158,945
Accrued Interest Receivable	-	-
Due From Other Funds	-	38,552
<u>Total Assets</u>	<u>4,556,989</u>	<u>197,497</u>
<u>LIABILITIES:</u>		
Accounts Payable	192,929	-
Accrued Salaries Payable	356,064	145,390
Due To Other Funds	38,552	-
Unearned Grant Payments	-	52,107
<u>Total Liabilities</u>	<u>587,545</u>	<u>197,497</u>
<u>DEFERRED INFLOW OF RESOURCES</u>		
Deferred Property Tax	<u>35,200</u>	-
<u>FUND BALANCES:</u>		
Restricted for:		
TABOR (Emergencies)	360,100	-
Capital Outlay	-	-
Preschool	87,451	-
Debt Service	-	-
Food Service	-	-
Committed for:		
Risk Management	553	-
Capital Outlay	-	-
Assigned for:		
Pupil Activities	-	-
Unassigned	<u>3,486,140</u>	-
<u>Total Fund Balances</u>	<u>3,934,244</u>	-
<u>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>	<u>4,556,989</u>	<u>197,497</u>

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

Bond Redemption Debt Service	Other Governmental Funds	Total Governmental Funds
2,087,773	674,396	7,190,638
44,199	-	144,726
-	37,237	65,230
-	-	158,945
-	-	-
-	-	38,552
<u>2,131,972</u>	<u>711,633</u>	<u>7,598,091</u>
-	22,401	215,330
-	-	501,454
-	-	38,552
-	-	52,107
<u>-</u>	<u>22,401</u>	<u>807,443</u>
<u>15,262</u>	<u>-</u>	<u>50,462</u>
-	-	360,100
-	35,032	35,032
-	-	87,451
2,116,710	-	2,116,710
-	65,449	65,449
-	-	553
-	439,867	439,867
-	148,884	148,884
-	-	3,486,140
<u>2,116,710</u>	<u>689,232</u>	<u>6,740,186</u>
<u>2,131,972</u>	<u>711,633</u>	<u>7,598,091</u>

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
June 30, 2016**

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

<u>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</u>	6,740,186
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$28,662,243 and the accumulated depreciation is \$18,345,495.	10,316,748
Property tax revenue is recognized when earned (claim to resources established) rather than when "available." All of the deferred property tax revenue is not available.	50,462
Accrued interest payable is not considered current financial resources and, therefore, not reported in the governmental funds.	(7,761)
Long-Term Liabilities for general obligation debt, capital lease payable and compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	
Bonds Payable	(3,560,000)
Capital Lease Payable	(84,031)
Compensated Absences	(26,979)
Bond Premium	<u>(43,299)</u>
	(3,714,309)
Net pension liability, along with associated deferred flow, are not recorded at the fund level:	
Net Pension Liability	(19,491,524)
Deferred Pension Cost – Plan	1,638,454
Deferred Pension Cost – Contributions Subsequent to Pension Measurement Date	524,402
Deferred Pension Cost – Employer	<u>(1,309,833)</u>
<u>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</u>	<u>(5,253,175)</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	<u>General</u>	<u>Grants Special Revenue Fund</u>	<u>Bond Redemption Debt Service</u>
<u>REVENUES:</u>			
Taxes	1,867,576	-	821,979
Intergovernmental	8,392,433	1,208,990	-
Interest	13,672	-	3,683
Other	194,610	-	-
<u>Total Revenues</u>	<u>10,468,291</u>	<u>1,208,990</u>	<u>825,662</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	5,021,439	1,750,497	-
Student Support	238,100	329,266	-
Instructional Staff	144,160	192,092	-
General Administration	394,084	-	-
School Administration	711,959	-	-
Business Services	121,955	12,016	-
Operations & Maintenance	1,398,115	-	-
Student Transportation	290,604	-	-
Central Support	497,094	25,548	-
Food Services	-	-	-
Community Services	169,009	-	-
Other	-	-	-
Capital Outlay	-	-	-
Debt Service	-	-	838,550
<u>Total Expenditures</u>	<u>8,986,519</u>	<u>2,309,419</u>	<u>838,550</u>
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>1,481,772</u>	<u>(1,100,429)</u>	<u>(12,888)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In (Out)	(1,260,719)	1,100,429	-
<u>Total Other Financing Sources (Uses)</u>	<u>(1,260,719)</u>	<u>1,100,429</u>	<u>-</u>
<u>NET CHANGES IN FUND BALANCES</u>	<u>221,053</u>	<u>-</u>	<u>(12,888)</u>
<u>FUND BALANCES, Beginning</u>	<u>3,713,191</u>	<u>-</u>	<u>2,129,598</u>
<u>FUND BALANCES, Ending</u>	<u>3,934,244</u>	<u>-</u>	<u>2,116,710</u>

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

Other Governmental Funds	Total Governmental Funds
-	2,689,555
1,605,565	11,206,988
653	18,008
<u>574,252</u>	<u>768,862</u>
<u>2,180,470</u>	<u>14,683,413</u>
405,094	7,177,030
-	567,366
-	336,252
-	394,084
-	711,959
-	133,971
-	1,398,115
-	290,604
3,010	525,652
1,099,218	1,099,218
-	169,009
-	-
881,741	881,741
<u>30,323</u>	<u>868,873</u>
<u>2,419,386</u>	<u>14,553,874</u>
<u>(238,916)</u>	<u>129,539</u>
<u>160,290</u>	<u>-</u>
<u>160,290</u>	<u>-</u>
(78,626)	129,539
<u>767,858</u>	<u>6,610,647</u>
<u>689,232</u>	<u>6,740,186</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

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

<u>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</u>	129,539
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Governmental Funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays more than \$5,000	821,763	
Depreciation Expense	<u>(725,765)</u>	95,998

Property tax revenues are not recognized for amounts levied and due but not "available" at year-end and are reported as deferred inflows in the governmental funds. They are, however, recorded as revenues in the statement of activities.

13,716

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The effect of premiums is recognized when the debt is issued in governmental funds, whereas these amounts are deferred and amortized in the statement of activities. Interest expense is recognized as it accrued in the statement of activities regardless of when it is due. The net effect of these differences follows:

Repayment of Debt Principal	670,847	
Interest Expense	661	
Amortization Expense	<u>9,574</u>	681,082

Compensated absences do not use current financial resources and are not reported On the governmental fund financial statements but are recognized on the government-wide financial statements.

8,642

The increase in net pension liability, along with the changes and amortizations of deferred flows associated with the net pension liability are not recorded at the fund level.

Change in net pension liability and related deferred flows	<u>(418,352)</u>
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<u>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</u>	<u>510,625</u>
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The accompanying notes are an integral part of these financial statements.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	27,632
Accounts Receivable	<u>-</u>
<u>Total Assets</u>	<u>27,632</u>
 <u>LIABILITIES</u>	
Deposits Held for Others	<u>27,632</u>
<u>Total Liabilities</u>	<u>27,632</u>
 <u>NET POSITION</u>	 <u><u>-</u></u>

NOTES TO BASIC FINANCIAL STATEMENTS

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

East Otero School District Number R-1 of Otero County was reorganized by a vote of qualified electorate in 1961, under the provisions of the Colorado School Organization Act of 1957.

The District operates under an elected Board of Education with five members and provides educational services to approximately 1,240 students.

The District is the lowest level of government, which is considered to be financially accountable over all activities related to public school education in East Otero School District Number R-1. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

A. Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14 (as amended by Statement No. 34, No. 39 and No. 61), "*The Financial Reporting Entity*" (GASB No. 14) describes the financial reporting entity as it relates to governmental counting. According to this Statement, the financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations whose exclusion from the reporting entity's financial statements would cause those statements to be misleading or incomplete. Any organizations that can be described by these last two items are included with the primary government in the financial statements as component units.

This District is not included in any other governmental "reporting entity" as defined in GASB No. 14 and does not include any other component unit as part of its "reporting entity". As required by accounting principles generally accepted in the USA, these basic financial statements present the District (the primary government) and its component units.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

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

B. 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 nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds (General Fund, Bond Redemption Debt Service Fund, and Grants Special Revenue Fund) are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the District's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and unassigned fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services or privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

All governmental fund types use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available to collect within 60 days after year-end.

Property taxes are reported as receivables and deferred inflows when levied and as revenues when due for collection in the following year and determined to be available.

Grants and entitlement revenues are recognized when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain accrued sick and personal pay which are accounted for as expenditures when expected to be liquidated with expendable available financial resources.

The proprietary fund types are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

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

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred flows, fund equity, revenues and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The major funds presented in the accompanying basic financial statements are as follows:

- **Major Governmental Funds**

1. **General Fund** – the general operating fund of the District; used to account for all resources that are not required legally or by sound financial management to be accounted for in another fund.
2. **Bond Redemption Debt Service Fund** – used to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.
3. **Special Revenue Funds** – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
 - a. **Governmental Designated – Purpose Grants Fund** – used to account for restricted state and federal grants including, but not limited to, No Child Left Behind programs which must be expended as designated by the grantor agency.

- **Fiduciary Funds**

1. **Trust and Agency Funds** – Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

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

E. Cash and Investments

Cash represents amounts on deposit with financial institutions or held by the District. The District is allowed to invest in the following types of investments: short-term certificates of deposit, repurchase agreements, money market deposit accounts, mutual funds, government pools, and U.S. Treasury Obligations. The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments are recorded at fair value in accordance with GASB Statement No. 72 *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

F. Receivables

Property taxes levied in 2015 but not yet available in 2016 are identified as property taxes receivable and deferred inflows at June 30, 2016, and are presented net of an allowance for uncollectible taxes.

G. Inventories

Materials and supplies inventories are stated at cost. Inventories recorded in the Food Services Fund consist of purchased and donated commodities. Purchased inventories are stated at cost. Donated inventories, received at no cost under a program supported by the Federal Government, are recorded at their estimated fair value at the date of receipt.

The cost of all inventories is recorded as an asset when the individual inventory items are purchased, and as an expenditure or expense when consumed.

H. Capital Assets

Capital assets, which include property, vehicles and equipment, are utilized for general District operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the governmental fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The District does not capitalize interest on the construction of capital assets in governmental funds. However, the District does capitalize interest on the construction of capital assets in business-type activities.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

The monetary threshold for capitalization of assets is \$5,000. The District's capital assets are depreciated using the straight-line method over the estimated useful lives of the fixed assets (5-50 years). Depreciation of all capital assets is charged as an expense against their operations. Depreciation is recorded in the year of acquisition and any remaining depreciation as recorded in the year of disposition.

I. Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position. The District records long-term debt of governmental funds at the face value. The District's general obligation bonds are serviced from property taxes and other revenues of the Debt Service Fund. Capital leases are serviced from property taxes and other revenues of the General Fund and Capital Reserve Capital Projects Fund. The long-term accumulated unpaid accrued sick and personal and vacation leave are serviced from property taxes and other revenues by the respective fund type from future appropriations.

J. Constitutional Amendment

In November 1992, Colorado voters approved Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations, which apply to the State of Colorado and local governments. It requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any entity.

On November 7, 1995 the registered voters approved a ballot resolution authorizing East Otero County School District Number R-1 to collect, retain and expend all revenues from any source provided that no property tax mill levy be increased or any new tax be imposed.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future years. TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be three percent or more of fiscal year spending (excluding bonded debt service). As of June 30, 2016, the District reserved \$360,100 for this purpose.

Spending and revenue limits are determined based on the prior fiscal year's spending adjusted for inflation in the prior calendar year plus annual increases in funded student enrollment. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

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

K. Property Taxes

Under Colorado law, all property taxes are due and payable in the year following the year levied. The 2015 property tax calendar for Otero County was as follows:

Levy Date	December 22, 2015
Lien Date	January 1, 2016
Tax Bills Mailed	January 1, 2016
First Installment Due	February 28, 2016
Second Installment Due	June 15, 2016
If Paid in Full, Due	April 30, 2016

L. Accumulated Sick and Personal Leave and Vacation

District policy allows support staff members who are employed full time for 12 calendar months shall earn .83 working days vacation with pay per month (10 working days per year).

Earned vacation may not be accumulated to more than an employee is qualified to receive (i.e. 10 or 15 days per year). Any earned vacation days beyond this amount must be paid out in the July payroll.

As of June 30, 2016, accumulated unused vacation amounted to \$2,454. District policy allows for the accumulation of discretionary leave to a maximum of 90 days. Upon separation from the district after 15 years or more of service to the district, or upon retirement under the Public Employees Retirement Association (PERA), a teacher shall be compensated at 100 percent of the substitute teacher rate per day for all discretionary days in excess of 50 days, up to a maximum of 40 days.

As of June 30, 2016, the accumulated discretionary leave liability amounted to \$24,525.

A summary of changes in compensated absences is as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Vacation	12,071	-	9,617	2,454
Discretionary Leave	<u>23,550</u>	<u>975</u>	<u>-</u>	<u>24,525</u>
<u>Total</u>	<u>35,621</u>	<u>975</u>	<u>9,617</u>	<u>26,979</u>

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. GASB Statement No. 54

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. Nonspendable such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District Board of Directors (the district's highest level of decision-making authority).
4. Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Fund Balance Classification Policies and Procedures

Committed Fund Balance Policy:

The District's Committed Fund Balance is fund balance reporting required by the School Board, either because of a School Board Policy in the School Board Policy Manual, or because of motions that passed at School Board meetings.

Assigned Fund Balance Policy:

The District's Assigned Fund Balance is fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business Officer.

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

First Non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then unrestricted fund balances are determined following the order of committed, assigned, and unassigned.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. GASB Statement No. 54 (Continued)

Fund Balance Classification by Fund:

	<u>Special Revenue Funds</u>					<u>Capital Projects Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Grants Fund</u>	<u>Pupil Activity Fund</u>	<u>Food Services Fund</u>	<u>Debt Service Fund</u>	<u>Building Fund</u>	<u>Capital Reserve</u>	
<u>Restricted:</u>								
Emergencies	360,100	-	-	-	-	-	-	360,100
Capital Outlay	-	-	-	-	-	35,032	-	35,032
Preschool	87,451	-	-	-	-	-	-	87,451
Debt Service	-	-	-	-	2,116,710	-	-	2,116,710
Food Service	-	-	-	65,449	-	-	-	65,449
<u>Committed:</u>								
<u>Risk</u>								
Management	553	-	-	-	-	-	-	553
Capital Outlay	-	-	-	-	-	-	439,867	439,867
<u>Assigned</u>								
Pupil Activities	-	-	148,884	-	-	-	-	148,884
<u>Unassigned</u>	<u>3,486,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,486,140</u>
<u>Total Fund</u>								
<u>Balances</u>	<u>3,934,244</u>	<u>-</u>	<u>148,884</u>	<u>65,449</u>	<u>2,116,710</u>	<u>35,032</u>	<u>439,867</u>	<u>6,740,186</u>

O. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet 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 and the balance sheet 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.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental funds balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for governmental fund statements to the economic resources measurement and full accrual basis used for government-wide statements. However, certain items having no effect on measurement and basis were eliminated from the government fund statements during the consolidation of governmental activities. The items which were eliminated are as follows:

Governmental Funds – Interfund Transfers	\$1,260,719
Governmental Funds – Interfund Receivables / Payables	\$38,552

NOTE 3 **BUDGETARY INFORMATION**

Revenues and expenditures are controlled by budgetary accounting systems in accordance with various legal requirements. The budgeted revenues and expenditures represent the original adopted budget as subsequently adjusted by the Board of Education in accordance with Colorado School Laws. Budgets are generally prepared on the same basis as that used for accounting purposes.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Business Manager submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public notices are released to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. The Business Manager is authorized to transfer budgeted amounts between categories within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration should be employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.
6. Budgets for the General, Special Revenue, Debt Service, Capital Projects Funds and Trust and Agency Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 **BUDGETARY INFORMATION (Continued)**

All appropriations lapse at the end of each fiscal year. Authorization to transfer budgeted amounts between programs and/or departments within any fund and the reallocation of budget line items within any program and/or department rests with the Superintendent of Schools and may be delegated to an appropriate level of management. Revisions and/or supplemental appropriations that alter the total expenditures of any fund must be approved by the Board of Education.

Budgetary amounts reported in the accompanying basic financial statements are as originally adopted and amended by the Superintendent and/or the Board of Education throughout the year.

NOTE 4 **CASH AND INVESTMENTS**

Deposits

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. 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 the aggregate uninsured deposits.

At June 30, 2016, the District's bank balance and corresponding carrying balance were as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>	<u>Bank & Carrying Balance Certificates of Deposit</u>
Insured (FDIC)	500,000	500,000	-
Uninsured; Collateralized under the Public Deposit Protection Act of the State of Colorado	4,160,988	4,305,215	2,084,997
Cash with County Treasurer	43,242	-	-
Cash on Hand	1,510	-	-
<u>Total Cash and Deposits</u>	<u>4,705,740</u>	<u>4,805,215</u>	<u>2,084,997</u>

Deposits with a bank balance of \$6,390,212 and a carrying balance of \$6,245,985 as of June 30, 2016 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

RECAP

Cash	4,705,740
Certificates of Deposit	<u>2,084,997</u>
	<u>6,790,737</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 **CASH AND INVESTMENTS (Continued)**

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest:

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

Guaranteed investment contracts:

At June 30, 2016, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Investment - Fair Value</u>
COLOTRUST	41 Day Average	<u>427,533</u>

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities for managing possible fair value losses due to increasing interest rates.

Credit Risk – State Law limits the type of investments allowable. The investment in COLOTRUST was rated AAA by Standard & Poor.

Concentration of Credit Risk – the District has no policy restricting the amount that can be invested in any issuer.

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 unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2016:

- COLOTRUST Investment Pool of \$427,533 is valued using quoted market prices (Level 1 inputs)

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 **CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Balance June 30, 2016</u>
<u>Non-Depreciable Assets:</u>					
Land	257,210	-	-	-	257,210
Construction in Progress	<u>279,757</u>	-	-	<u>(279,757)</u>	-
<u>Total Non-Depreciable Assets</u>	<u>536,967</u>	-	-	<u>(279,757)</u>	<u>257,210</u>
<u>Depreciable Assets:</u>					
Land Improvements	674,529	-	-	-	674,529
Buildings & Improvements	23,108,313	788,160	-	279,757	24,176,230
Equipment & Vehicles	<u>3,520,671</u>	<u>33,603</u>	-	-	<u>3,554,274</u>
<u>Total Depreciable Assets</u>	<u>27,303,513</u>	<u>821,763</u>	-	<u>279,757</u>	<u>28,405,033</u>
<u>Less Accumulated Depreciation for:</u>					
Land Improvements	291,891	53,253	-	-	345,144
Buildings & Improvements	14,198,817	573,089	-	-	14,771,906
Equipment & Vehicles	<u>3,129,022</u>	<u>99,423</u>	-	-	<u>3,228,445</u>
<u>Total Accumulated Depreciation</u>	<u>17,619,730</u>	<u>725,765</u>	-	-	<u>18,345,495</u>
<u>Total Capital Assets, Net</u>	<u>10,220,750</u>	<u>95,998</u>	-	-	<u>10,316,748</u>

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

<u>Governmental Activities:</u>	
Instruction	555,211
Pupil Services	20,321
General Administration	2,903
Operations and Maintenance	52,981
Transportation	82,861
Food Service	<u>11,488</u>
<u>Total Depreciation Expense –Governmental Activities</u>	<u>725,765</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 **INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

<u>Governmental Funds:</u>	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	-	38,552	-	1,260,719
Student Activity	-	-	38,000	-
Grants	38,552	-	1,100,429	-
Building	-	-	6,108	-
Capital Reserve-Capital Projects	-	-	116,182	-
<u>Total</u>	<u>38,552</u>	<u>38,552</u>	<u>1,260,719</u>	<u>1,260,719</u>

Transfers were for operational purposes. Interfund receivables and payables are expected to be repaid within the subsequent year.

NOTE 7 **GENERAL OBLIGATION BONDS PAYABLE**

A. Series 2003, General Obligation Refunding Bonds

General Obligation refunding (\$3,694,996) bonds (Series 2003) dated June 1, 2003 with a par value of \$5,000 each were issued on June 11, 2003. Interest at a coupon rate of 3.20% to 3.30% is payable each June 15. Bond principal is due beginning December 15, 2003, and each year thereafter. Property taxes collected by the Debt Service Fund will be used to retire this bond issue. This bond issue was fully paid as of June 30, 2016.

B. Series 2008, General Obligation Bonds

General Obligation (\$4,300,000) bonds (Series 2008) dated December 18, 2008 with a par value of \$5,000 each were issued on December 18, 2008. Interest at a coupon rate of 3.50% to 5.50% is payable each June 15 and December 15. Bond principal is due beginning December 15, 2016, and each year thereafter. Property taxes collected by the Debt Service Fund will be used to retire this bond issue. Bonds of the issue maturing in the years 2019 and thereafter are redeemable at the option of the District on December 15, 2019 and on any interest payment date thereafter in any order of maturity, upon payment of the principal amount (with no redemption premium), plus accrued interest to the redemption date.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 7

GENERAL OBLIGATION BONDS PAYABLE (Continued)

B. Series 2008, General Obligation Bonds (Continued)

<u>General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Interest Payable</u>	<u>Principal Payable</u>
G.O. Refunding Payable Series, 2008 with interest ranging from 3.50% to 5.50%, original amount of issue \$4,300,000.			
	2017	177,369	205,000
	2018	168,288	210,000
	2019	158,613	220,000
	2020	147,912	230,000
	2021	136,038	245,000
	2022-2026	476,819	1,410,000
	2027-2029	87,724	1,040,000
		<u>1,352,763</u>	<u>3,560,000</u>
<u>Total G.O. Bonds</u>			<u>3,560,000</u>

C. Changes in General Obligation Bonds

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>One Year</u>
Series 2003 G.O. Refunding Bonds	450,000	-	450,000	-	-
Series 2008 G.O. Refunding Bonds	<u>3,755,000</u>	-	<u>195,000</u>	<u>3,560,000</u>	<u>205,000</u>
Total Bonds Payable	<u>4,205,000</u>	-	<u>645,000</u>	<u>3,560,000</u>	<u>205,000</u>
Deferred Amounts:					
Bond Premium	69,581	-	26,282	43,299	5,677
Loss on Bond Refunding	<u>(16,708)</u>	-	<u>(16,708)</u>	-	-
Total	<u>4,257,873</u>	-	<u>654,574</u>	<u>3,603,299</u>	<u>210,677</u>

D. Advance Refunding

In prior years, the District defeased the 1995 General Obligation Refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2015, bonds outstanding were considered defeased and were fully paid as of June 30, 2016.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 **CAPITAL LEASES PAYABLE**

A summary of changes in Capital leases Payable are as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
General Governmental:					
Building	<u>109,878</u>	<u>-</u>	<u>25,847</u>	<u>84,031</u>	<u>26,900</u>

During fiscal year 2014, the District entered into a capital lease to purchase a building. Notwithstanding the fact that the District may elect not to renew the agreement in any year, it is the present intention of the District that the agreement will be renewed annually until full rights to the building are acquired. The annual interest rate is 4.0% with annual payments of \$30,323. The balance due as of June 30, 2016 was \$84,031. Annual debt service requirements to maturity for the capital lease are as follows:

	<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Payment</u>	<u>Principal</u>	<u>Interest</u>
	2017	30,323	26,900	3,423
	2018	30,323	27,996	2,327
	2019	30,324	29,135	1,189
Total Minimum Payments		90,970	84,031	6,939
Less Amount Representing Interest		(6,939)		
Net Present Value of Future Minimum Payments		84,031		

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 9 PENSION PLAN

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions. East Otero School District Number R-1 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 East Otero School District Number R-1 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/investment/pera-financial-reports](http://www.copera.org/investment/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. 24-51-601, 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.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

Contributions. Eligible employees and East Otero School District Number R-1 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. The employer contribution requirements are summarized in the table below.

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate	10.15 %	10.15 %
Amount of Employer Contribution apportioned to the 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	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. 24-51-411	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF	17.33%	18.13%

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 East Otero School District Number R-1 is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from East Otero School District Number R-1 were \$1,010,077 for the year ended June 30, 2016.

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

At June 30, 2016, the East Otero School District Number R-1 reported a liability of \$19,491,524 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 East Otero School District Number R-1 proportion of the net pension liability was based on East Otero School District Number R-1 contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the East Otero School District Number R-1 proportion was 0.1274 percent, which was a decrease of 0.0123 from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the East Otero School District Number R-1 recognized pension expense of \$418,352. At June 30, 2016, the East Otero School District Number R-1 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9

PENSION PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	257,388	(812)
Changes of assumptions or other inputs	0	(275,449)
Net difference between projected and actual earnings on pension plan investments	1,657,327	0
Changes in proportion and differences between contributions recognized and proportionate share of contributions	0	(1,309,833)
Contributions subsequent to the measurement date	524,402	N/A
Total	2,439,117	(1,586,094)

\$524,402 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, 2016. 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, 2016	
2017	(84,635)
2018	(67,367)
2019	140,769
2020	339,854
2021	-
Thereafter	-

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

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

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

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

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

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

*In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to increase annually at a rate of 3.9%.
- 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, 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.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

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

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

Sensitivity of the East Otero School District Number R-1 proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	25,266,712	19,491,524	14,687,645

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.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 **PENSION PLAN (Continued)**

Defined Contribution Pension Plan

Voluntary Investment Program

Plan Description – Employees of the East Otero School District Number R-1 that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA, Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees, PERA issues a publicly available comprehensive annual financial report for the Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. For the year ended June 30, 2016, program members contributed \$17,692.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The East Otero School District Number R-1 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 East Otero School District Number R-1 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 East Otero School District Number R-1 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, 2016, 2015 and 2014, the East Otero School District Number R-1 contributions to the HCTF were \$58,101, \$59,386 and \$58,656, respectively equal to their required contributions for each year.

NOTE 10 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 COLORADO SCHOOL DISTRICT SELF INSURANCE POOL

The District belongs to the Colorado School District's Self-Insurance Pool. The Pool was established by the Colorado Association of School Boards (CASB) to provide insurance coverage to participants in the areas of General Liability, Errors and Omissions, Automobile Liability, Auto Physical Damage, Auto Personal Injury Protection, Real and Personal Property, Crime, and other coverage. The Board of Directors is composed of nine persons; all of whom are appointed by the Board of Directors of CSDSIP. The Pool is managed by an executive director chosen by the Board of Directors. Each member's initial contribution and subsequent contributions are determined by the Pool based on factors including, but not limited to, the Aggregate Pool claims, the cost of Administrative and other operating expenses, the number of participants, the adequacy of both Operating and Reserve Funds and other factors touching on the status of the Pool or an individual participant, and as approved by the Colorado Insurance Commissioner.

As the District did not exercise oversight responsibility nor have sufficient control over Pool activities, the Pool is not a component unit of the District and only the District's share of contributions to the Pool is recorded as Expenditures in the Insurance Reserve Fund.

The District's share in the Pool is not determinable from current information, but is estimated to be less than 1%. The District's share, if calculated, would not be material to the Pool's financial information at June 30, 2016.

An audited summary of the Colorado School District's Pool financial information at December 31, 2015 (latest information available) follows:

Total Assets	<u>46,958,320</u>
Total Liabilities	<u>22,633,311</u>
Total Equity	<u>24,325,009</u>
Revenue	13,432,892
Underwriting Expenses	<u>16,484,758</u>
Underwriting Gain (Loss)	(3,051,866)
Net Investment Income	663,509
Other Income	<u>-</u>
Net Income (Loss) Before Dividend	(2,388,357)
Dividend	<u>-</u>
Net Income	(2,388,357)
Change in Non Admitted Assets	<u>95,339</u>
Return of Capital Contributions to Members	<u>-</u>
Unassigned Surplus	<u>24,325,009</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 **SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

Claims and Judgments - The District participates in a number of federal, state and county 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 District may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited by the grantor but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the District.

NOTE 13 **JOINT VENTURES**

Santa Fe Trail Board of Cooperative Educational Services (BOCES)

Not reflected in the accompanying financial statements is the District's participation in the Santa Fe Trail Board of Cooperative Educational Services (BOCES). The BOCES is an organization that provides member districts educational services at a shared lower cost per District.

The District has one member on the Board. The Board has final authority for all budgeting and financing of the joint venture. The District's share of the joint venture is not determinable at June 30, 2016. The joint venture summary audited financial information as of June 30, 2015 is as follows:

Assets	792,951
Deferred Outflows of Resources	169,388
Liabilities	4,286,712
Deferred Inflows of Resources	230
Net Position	<u>(3,324,603)</u>
Revenues	2,662,939
Expenditures	<u>2,701,735</u>
Excess (Deficiency)	<u>(38,796)</u>

The B.O.C.E.S. has no long term debt.

The equity interest of each member District is not known, nor is the change in such interest. The equity interest will be determined only at the disbanding of the B.O.C.E.S..

The BOCES is not included as a component unit of the District as the financial responsibility is minimal, there is no financial interdependency, the District does not have the ability to significantly influence the operations of the BOCES and the District is not accountable for fiscal matters of the BOCES.

Financial statements are filed annually with the Colorado State Auditor's Office.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 14 **ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, at June 30, 2016 are estimated to be \$501,454. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the various funds.

NOTE 15 **COMPLIANCE WITH BUDGET LAWS**

The actual expenditures of the following funds exceeded their budget and may be in violation of Colorado Budget Law:

Grants Special Revenue Fund	\$57,956
Student Activity Special Revenue Fund	\$65,104
Food Services Special Revenue Fund	\$137,417
PTO Fiduciary Fund	\$14,248

NOTE 16 **PRIOR YEAR ADJUSTMENT**

In the fiscal year ended December 31, 2015, no deferred inflow was recorded for the change in proportion of the District's contributions to PERA in relation to their portion of the net pension liability originally recorded during the implementation of GASB Statements No. 68 and 71. The amount of deferred inflow at June 30, 2015 that should have been recorded was \$154,110. The Statement of Activities reflects the corresponding reduction to entity-wide net position as of that date as a prior period adjustment.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISONS

PENSION TREND DATA

MAJOR GOVERNMENTAL FUNDS

General Fund

The General Fund accounts for all transactions of the District not accounted for in other funds. This fund represents an accounting for the District's ordinary operations financed from property taxes and other general revenues. It is the most significant fund in relation to the District's overall operations.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Grants Fund – This fund is provided to maintain a separate accounting for federal and state grant funded programs which normally have a different fiscal period than that of the District.

Pension Trend Data

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
<u>REVENUES</u>	<u>Original</u>	<u>Final</u>		
<u>Local Sources</u>				
Property Taxes	1,400,000	1,400,000	1,543,404	143,404
Specific Ownership Taxes	275,000	275,000	319,313	44,313
Earnings on Investments	10,000	10,000	13,672	3,672
Delinquent Taxes and Interest	5,000	5,000	4,859	(141)
Tuition/Concurrent Enrollment	200,000	200,000	97,423	(102,577)
Rental	24,000	24,000	36,597	12,597
Other	9,000	9,000	60,590	51,590
Sale of Property	-	-	-	-
<u>County Sources</u>				
Impact Assistance	200	200	309	109
Other	-	-	-	-
<u>State Sources</u>				
Equalization	8,326,005	8,326,005	8,273,796	(52,209)
Transportation	45,000	45,000	50,679	5,679
Read Act	7,000	7,000	48,917	41,917
Library Grant	3,000	3,000	4,000	1,000
At Risk Funding	-	-	14,732	14,732
<u>Total Revenues</u>	<u>10,304,205</u>	<u>10,304,205</u>	<u>10,468,291</u>	<u>164,086</u>
 <u>EXPENDITURES</u>				
<u>Instruction</u>	<u>5,126,178</u>	<u>5,126,178</u>	<u>5,021,439</u>	<u>104,739</u>
<u>Supporting Services:</u>				
Students	300,047	300,047	238,100	61,947
Instructional Staff	146,131	146,131	144,160	1,971
General Administration	437,653	437,653	394,084	43,569
School Administration	640,482	640,482	711,959	(71,477)
Business Services	127,831	127,831	121,955	5,876
Operations and Maintenance	1,456,520	1,456,520	1,398,115	58,405
Student Transportation	292,633	292,633	290,604	2,029
Central Support	460,191	460,191	497,094	(36,903)
Community Services	183,268	183,268	169,009	14,259
Facilities	-	-	-	-
<u>Total Supporting Services</u>	<u>4,044,756</u>	<u>4,044,756</u>	<u>3,965,080</u>	<u>79,676</u>
<u>Appropriated Reserves</u>	<u>2,313,220</u>	<u>2,313,220</u>	<u>-</u>	<u>2,313,220</u>
<u>Total Expenditures</u>	<u>11,484,154</u>	<u>11,484,154</u>	<u>8,986,519</u>	<u>2,497,635</u>

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES OVER (UNDER)</u>				
<u>EXPENDITURES</u>	<u>(1,179,949)</u>	<u>(1,179,949)</u>	<u>1,481,772</u>	
<u>Other Financing Sources (Uses)</u>				
Transfers In (Out)	<u>(1,127,290)</u>	<u>(1,127,290)</u>	<u>(1,260,719)</u>	<u>(133,429)</u>
<u>Total Other Financing Source (Uses)</u>	<u>(1,127,290)</u>	<u>(1,127,290)</u>	<u>(1,260,719)</u>	<u>(133,429)</u>
<u>Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses</u>	<u>(2,307,239)</u>	<u>(2,307,239)</u>	<u>221,053</u>	
<u>FUND BALANCE, Beginning</u>	<u>3,291,348</u>	<u>3,291,348</u>	<u>3,713,191</u>	
<u>FUND BALANCE, Ending</u>	<u>984,109</u>	<u>984,109</u>	<u>3,934,244</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GRANTS – SPECIAL REVENUE FUND
For the Year Ended June 30, 2016**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Local Sources	60,311	60,311	-	(60,311)
State Sources	41,200	41,200	75,822	34,622
Federal Sources	<u>1,189,952</u>	<u>1,189,952</u>	<u>1,133,168</u>	<u>(56,784)</u>
<u>Total Revenues</u>	<u>1,291,463</u>	<u>1,291,483</u>	<u>1,208,990</u>	<u>(82,473)</u>
<u>EXPENDITURES:</u>				
Current:				
Instruction	1,659,915	1,659,915	1,750,497	(90,582)
Student Support	351,985	351,985	329,266	22,719
Instructional Support	225,223	225,223	192,092	33,131
Business Support	14,340	14,340	12,016	2,324
Central Support Services	-	-	25,548	(25,548)
<u>Total Expenditures</u>	<u>2,251,463</u>	<u>2,251,463</u>	<u>2,309,419</u>	<u>(57,956)</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	<u>(960,000)</u>	<u>(960,000)</u>	<u>(1,100,429)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	<u>960,000</u>	<u>960,000</u>	<u>1,100,429</u>	<u>140,429</u>
<u>Total Financing Sources (Uses)</u>	<u>960,000</u>	<u>960,000</u>	<u>1,100,429</u>	<u>140,429</u>
<u>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</u>	-	-	-	
<u>FUND BALANCE, Beginning</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>FUND BALANCE, Ending</u>	<u>-</u>	<u>-</u>	<u>-</u>	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Last 10 Fiscal Years (As Available)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
District's proportion of the net pension liability (asset)	0.1274%	0.1398%	0.1414%	-	-	-	-	-	-	-
District's proportionate share of the net pension liability (asset)	\$19,491,524	\$18,945,018	\$18,040,214	-	-	-	-	-	-	-
District's covered-employee payroll	\$5,696,167	\$5,822,142	\$5,750,544	-	-	-	-	-	-	-
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	342%	325%	314%	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.80%	64.06%	-	-	-	-	-	-	-

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF DISTRICT CONTRIBUTIONS
For The Last 10 Fiscal Years (As Available)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contributions	\$1,010,077	\$982,214	\$977,021	\$854,970	-	-	-	-	-	-
Contributions in relation to the contractually required contributions	<u>\$1,010,077</u>	<u>\$982,214</u>	<u>\$977,021</u>	<u>\$(854,970)</u>	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-	-
District's covered-employee payroll	\$5,696,167	\$5,822,142	\$5,750,544	\$5,669,608	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	17.73%	16.87%	16.99%	15.08%	-	-	-	-	-	-

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

COMBINING AND INDIVIDUAL FUND STATEMENTS AND OTHER SCHEDULES

Bond Redemption Fund

Bond Redemption Debt Service Fund – Use to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.

NON MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds account for revenues that are legally restricted to expenditures for specified purposes.

Student Activity Fund – This fund accounts for the financial activities associated with student support.

Food Service Fund – This fund accounts for all financial activities associated with the District's school breakfast and lunch programs.

Capital Project Funds

Capital Reserve Capital Project Fund – This fund accounts for the acquisition of sites, buildings, equipment and vehicles.

Building Fund – This fund accounts for the construction and improvement of District buildings. Bond proceeds are used to finance these projects.

FIDUCIARY FUNDS

Fiduciary Fund Types

Agency Fund – PTO Fund – This fund is used to account for amounts held in a fiduciary capacity for organizations.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
BOND REDEMPTION DEBT SERVICE FUND
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES</u>			
Property Taxes	610,000	679,237	69,237
Specific Ownership Taxes	111,000	140,601	29,601
Delinquent Taxes & Interest	3,000	2,141	(859)
Interest Earnings	<u>1,200</u>	<u>3,683</u>	<u>2,483</u>
<u>Total Revenues</u>	<u>725,200</u>	<u>825,662</u>	<u>100,462</u>
<u>EXPENDITURES:</u>			
Debt Service:			
Principal Retirement	645,000	645,000	-
Interest and Fiscal Charges	<u>194,050</u>	<u>193,550</u>	<u>500</u>
<u>Total Expenditures</u>	<u>839,050</u>	<u>838,550</u>	<u>500</u>
<u>EXCESS OF REVENUES OVER</u>			
<u>EXPENDITURES</u>	(113,850)	(12,888)	
<u>FUND BALANCES, Beginning</u>	<u>2,108,975</u>	<u>2,129,598</u>	
<u>FUND BALANCES, Ending</u>	<u>1,995,125</u>	<u>2,116,710</u>	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	<u>Special Revenue Fund</u>		<u>Capital Project Fund</u>		<u>Total</u>
	<u>Student</u>	<u>Food</u>	<u>Capital</u>	<u>Building</u>	<u>Non-Major</u>
	<u>Activity</u>	<u>Service</u>	<u>Reserve</u>		<u>Governmental</u>
					<u>Funds</u>
<u>ASSETS</u>					
Cash & Investments	148,884	50,613	439,867	35,032	674,396
Accounts Receivable	-	37,237	-	-	37,237
Due From Other Funds	-	-	-	-	-
<u>Total Assets</u>	<u>148,884</u>	<u>87,850</u>	<u>439,867</u>	<u>35,032</u>	<u>711,633</u>
<u>LIABILITIES AND FUND</u>					
<u>BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	-	22,401	-	-	22,401
Accrued Salaries	-	-	-	-	-
Due To Other Funds	-	-	-	-	-
<u>Total Liabilities</u>	<u>-</u>	<u>22,401</u>	<u>-</u>	<u>-</u>	<u>22,401</u>
<u>Fund Balances:</u>					
Restricted for:					
Capital Outlay	-	-	-	35,032	35,032
Food Service	-	65,449	-	-	65,449
Committed for:					
Capital Outlay	-	-	439,867	-	439,867
Assigned for:					
Pupil Activities	<u>148,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,884</u>
<u>Total Fund Balances</u>	<u>148,884</u>	<u>65,449</u>	<u>439,867</u>	<u>35,032</u>	<u>689,232</u>
<u>TOTAL LIABILITIES & FUND</u>					
<u>BALANCES</u>	<u>148,884</u>	<u>87,850</u>	<u>439,867</u>	<u>35,032</u>	<u>711,633</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	<u>Special Revenue Fund</u>		<u>Capital Project Fund</u>		<u>Total</u>
	<u>Student</u>	<u>Food</u>	<u>Capital</u>		<u>Non-Major</u>
	<u>Activity</u>	<u>Service</u>	<u>Reserve</u>	<u>Building</u>	<u>Governmental</u>
					<u>Funds</u>
<u>REVENUES</u>					
Local Sources	359,821	214,955	-	129	574,905
State Sources	-	8,255	-	732,227	740,482
Federal Sources	-	865,083	-	-	865,083
<u>Total Revenues</u>	<u>359,821</u>	<u>1,088,293</u>	<u>-</u>	<u>732,356</u>	<u>2,180,470</u>
<u>EXPENDITURES</u>					
Current:					
Instruction	405,094	-	-	-	405,094
Support Services:					
Transportation	-	-	-	-	-
Central Support	3,010	-	-	-	3,010
Food Services	-	1,099,218	-	-	1,099,218
Capital Outlay	-	-	65,959	815,782	881,741
Debt Service	-	-	30,323	-	30,323
<u>Total Expenditures</u>	<u>408,104</u>	<u>1,099,218</u>	<u>96,282</u>	<u>815,782</u>	<u>2,419,386</u>
<u>EXCESS (DEFICIENCY) OF</u>					
<u>REVENUES OVER (UNDER)</u>					
<u>EXPENDITURES</u>	<u>(48,283)</u>	<u>(10,925)</u>	<u>(96,282)</u>	<u>(83,426)</u>	<u>(238,916)</u>
<u>OTHER FINANCING SOURCES</u>					
<u>(USES)</u>					
Transfers In (Out)	<u>38,000</u>	<u>-</u>	<u>116,182</u>	<u>6,108</u>	<u>160,290</u>
<u>Total Other Financing</u>					
<u>Sources (Uses)</u>	<u>38,000</u>	<u>-</u>	<u>116,182</u>	<u>6,108</u>	<u>160,290</u>
<u>NET CHANGE IN FUND</u>					
<u>BALANCES</u>	<u>(10,283)</u>	<u>(10,925)</u>	<u>19,900</u>	<u>(77,318)</u>	<u>(78,626)</u>
<u>FUND BALANCES, Beginning</u>	<u>159,167</u>	<u>76,374</u>	<u>419,967</u>	<u>112,350</u>	<u>767,858</u>
<u>FUND BALANCES, Ending</u>	<u>148,884</u>	<u>65,449</u>	<u>439,867</u>	<u>35,032</u>	<u>689,232</u>

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
STUDENT ACTIVITY – SPECIAL REVENUE FUND
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES:</u>			
Local Revenues	<u>343,000</u>	<u>359,821</u>	<u>16,821</u>
<u>Total Revenues</u>	<u>343,000</u>	<u>359,821</u>	<u>16,821</u>
<u>EXPENDITURES</u>			
Instructional	<u>343,000</u>	<u>405,094</u>	<u>(62,094)</u>
Central Support Services	<u>-</u>	<u>3,010</u>	<u>(3,010)</u>
<u>Total Expenditures</u>	<u>343,000</u>	<u>408,104</u>	<u>(65,104)</u>
<u>EXCESS OF REVENUES OVER</u>			
<u>(UNDER) EXPENDITURES</u>	<u>-</u>	<u>(48,283)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers (Out)	<u>-</u>	<u>38,000</u>	<u>38,000</u>
<u>Total Other Financing</u>			
<u>Sources (Uses)</u>	<u>-</u>	<u>38,000</u>	<u>38,000</u>
<u>EXCESS OF REVENUES AND OTHER</u>			
<u>FINANCING SOURCES OVER (UNDER)</u>			
<u>EXPENDITURES AND OTHER USES</u>	<u>-</u>	<u>(10,283)</u>	
<u>FUND BALANCE, Beginning</u>	<u>111,474</u>	<u>159,167</u>	
<u>FUND BALANCE, Ending</u>	<u>111,474</u>	<u>148,884</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOOD SERVICE – SPECIAL REVENUE FUND
For the Year Ended June 30, 2016**

	<u>Budget Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Food Sales	155,000	214,477	59,477
Interest Earned	300	478	178
<u>Total Local Sources</u>	<u>155,300</u>	<u>214,955</u>	<u>59,655</u>
<u>State Sources</u>			
State Match	8,000	6,896	(1,104)
Smart Start	5,000	1,359	(3,641)
PK-2 Reduced Breakfast	2,300	-	(2,300)
<u>Total State Sources</u>	<u>15,300</u>	<u>8,255</u>	<u>(7,045)</u>
<u>Federal Sources</u>			
School Lunches	699,788	775,400	75,612
Fresh Fruits and Vegetables	39,000	35,725	(3,275)
Commodities	40,000	53,958	13,958
<u>Total Federal Sources</u>	<u>778,788</u>	<u>865,083</u>	<u>86,295</u>
<u>TOTAL REVENUES</u>	<u>949,388</u>	<u>1,088,293</u>	<u>138,905</u>
<u>EXPENDITURES</u>			
Salaries	18,360	17,660	700
Benefits	6,691	6,898	(207)
Contracted Services	912,950	1,016,593	(103,643)
Repairs & Maintenance	2,000	2,177	(177)
Supplies	3,800	1,932	1,868
Food Expense	(22,000)	-	(22,000)
Commodities	40,000	53,958	(13,958)
<u>TOTAL EXPENDITURES</u>	<u>961,801</u>	<u>1,099,218</u>	<u>(137,417)</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(12,413)</u>	<u>(10,925)</u>	
<u>FUND BALANCE, Beginning</u>	<u>96,973</u>	<u>76,374</u>	
<u>FUND BALANCE, Ending</u>	<u>84,560</u>	<u>65,449</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
CAPITAL RESERVE – CAPITAL PROJECTS FUND
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES:</u>			
Other	-	-	-
<u>Total Revenues</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>EXPENDITURES</u>			
Equipment	-	14,439	(14,439)
Buildings	87,000	33,251	53,749
Vehicles	-	18,269	(18,269)
Debt Service:			
Lease Purchase Interest	5,488	4,476	1,012
Lease Purchase Principal	<u>24,835</u>	<u>25,847</u>	<u>(1,012)</u>
<u>Total Expenditures</u>	<u>117,323</u>	<u>96,282</u>	<u>21,041</u>
<u>EXCESS OF REVENUES OVER (UNDER)</u>			
<u>EXPENDITURES</u>	<u>(117,323)</u>	<u>(96,282)</u>	
<u>OTHER FINANCINE SOURCES (USES)</u>			
Transfers In (Out)	<u>122,290</u>	<u>116,182</u>	<u>(6,108)</u>
<u>Total Other Financing Sources</u>			
<u>(Uses)</u>	<u>122,290</u>	<u>116,182</u>	<u>(6,108)</u>
<u>NET CHANGE IN FUND BALANCES</u>	4,967	19,900	
<u>FUND BALANCE, Beginning</u>	<u>385,746</u>	<u>419,967</u>	
<u>FUND BALANCE, Ending</u>	<u>390,713</u>	<u>439,867</u>	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUILDING FUND
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES</u>			
State Source BEST Grant	895,353	732,227	(163,126)
Earnings on Investments	45	129	84
<u>Total Revenues</u>	<u>895,398</u>	<u>732,356</u>	<u>(163,042)</u>
<u>EXPENDITURES</u>			
Building and Improvements	994,777	815,782	178,995
Equipment	4,000	-	4,000
<u>Total Expenditures</u>	<u>998,777</u>	<u>815,782</u>	<u>182,995</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(103,379)</u>	<u>(83,426)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers	-	6,108	6,108
<u>Total Other Financing Sources (Uses)</u>	<u>-</u>	<u>6,108</u>	<u>6,108</u>
<u>REVENUES OVER (UNDER) OTHER FINANCING</u> <u>SOURCES (USES) AND EXPENDITURES</u>	<u>(103,379)</u>	<u>(77,318)</u>	
<u>FUND BALANCE, Beginning</u>	<u>131,026</u>	<u>112,350</u>	
<u>FUND BALANCE, Ending</u>	<u>27,647</u>	<u>35,032</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF CHANGES IN RECEIPTS
AND DISBURSEMENTS - BUDGET AND ACTUAL
FIDUCIARY FUNDS
For the Year Ended June 30, 2016**

	<u>Agency Funds</u>		<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Budgeted Amounts Original & Final</u>	<u>Actual</u>	
<u>ADDITIONS</u>			
Local Receipts	<u>71,190</u>	<u>75,404</u>	<u>4,214</u>
<u>DEDUCTIONS</u>			
Disbursements PTO	<u>70,000</u>	<u>84,248</u>	<u>(14,248)</u>
<u>Total Deductions</u>	<u>70,000</u>	<u>84,248</u>	<u>(14,248)</u>
<u>CHANGES IN DUE TO OTHERS</u>	<u>1,190</u>	<u>(8,844)</u>	
<u>DUE TO OTHERS, Beginning</u>	<u>42,943</u>	<u>36,476</u>	
<u>DUE TO OTHERS, Ending</u>	<u>44,133</u>	<u>27,632</u>	

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

OTHER SCHEDULES

Auditor's Integrity Report (Revenues, Expenditures, and Fund Balance by Fund)

Bolded Balance Sheet Report



Colorado Department of Education
Auditors Integrity Report
 District: 2520 - EAST OTERO R-1
 Fiscal Year 2015-16
 Colorado School District/BOCES

Colorado School District 00

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your prior period adjustment is added into both your ending and beginning fund balances on this report.



Colorado Department of Education
Bolded Balance Sheet Report
 District 2520 - EAST OTERO R-1
 Fiscal Year 2015-16
 Colorado School District/BOCES

ASSETS	Governmental						Proprietary				Fiduciary		
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Food Service Special Revenue Fund 21	Special Revenue Funds 20, 22-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Cash and Investments (8100-8104,8111)	4,336,344	0	62,394	50,613	148,884	2,074,560	474,899	0	0	0	27,632	0	7,175,027
Cash with Fiscal Agent (8105)	30,030	0	0	0	0	13,212	0	0	0	0	0	0	43,242
Other Investment Accounts (8112-8115)	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes Receivable (8121,8122)	100,527	0	0	0	0	44,199	0	0	0	0	0	0	144,726
Interfund Loans Receivable (8131,8132)	105,220	0	25,357	0	143,772	0	0	0	0	0	0	0	274,350
Grants Accounts Receivable (8142)	27,993	0	0	26,936	158,945	0	0	0	0	0	0	0	213,875
Other Receivables (8151-8154,8161)	0	0	0	10,300	0	0	0	0	0	0	0	0	10,300
Machinery and Equipment (8241,8242,8251)	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets	4,600,115	0	87,451	87,850	451,601	2,131,972	474,899	0	0	0	27,632	0	7,861,521

Governmental

Proprietary

Fiduciary

FUND EQUITY													
General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Food Service Special Revenue Fund 21	Special Revenue Funds 20, 22-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals	
Non-spendable Fund Balance 6710	0	0	0	0	0	0	0	0	0	0	0	0	
Restricted Fund Balance 6720	0	0	0	65,449	0	2,116,710	35,032	0	0	0	0	2,217,191	
TABOR 3% Emergency Reserve 6721	360,100	0	0	0	0	0	0	0	0	0	0	360,100	
TABOR Multi-Year 6722	0	0	0	0	0	0	0	0	0	0	0	0	
District Emergency Reserve (letter of credit or real estate) 6723	0	0	0	0	0	0	0	0	0	0	0	0	
Colorado Preschool Program (CPP) Reserve 6724	0	0	87,451	0	0	0	0	0	0	0	0	87,451	
Full-Day Kindergarten Reserve 6725	0	0	0	0	0	0	0	0	0	0	0	0	
Risk-Related / Restrtrcted Capital Reserve 6726	0	0	0	0	0	0	0	0	0	0	0	0	
BEST Capital Reserve 6727	0	0	0	0	0	0	0	0	0	0	0	0	
Committed Fund Balance 6750	553	0	0	0	0	439,867	0	0	0	0	0	440,420	
Assigned Fund Balance 6760	0	0	0	0	148,884	0	0	0	0	0	0	148,884	
Unassigned Fund Balance 6770	3,486,140	0	0	0	0	0	0	0	0	27,632	0	3,513,772	
Invested in Capital Assets, Net of Related Debt 6790	0	0	0	0	0	0	0	0	0	0	0	0	
Restricted Net Assets 6791	0	0	0	0	0	0	0	0	0	0	0	0	
Unrestricted Net Assets 6792	0	0	0	0	0	0	0	0	0	0	0	0	
Prior Period Adjustment 6880	0	0	0	0	0	0	0	0	0	0	0	0	
Total Fund Equity	3,846,793	0	87,451	65,449	148,884	2,116,710	474,899	0	0	27,632	0	6,567,818	

	Governmental										Proprietary										Fiduciary									
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Food Service Special Revenue Fund 21	Special Revenue Funds 20, 22-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals																	
Total Liabilities & Fund Equity	4,600,115	0	87,451	87,850	451,601	2,131,972	474,899	0	0	0	27,632	0	7,861,521																	
For Each Fund Type: Do Assets=Liability+Fund Equity	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes																	

SINGLE AUDIT SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Otero School District Number R-1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise East Otero School District Number R-1's basic financial statements, and have issued our report thereon dated February 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Otero School District Number R-1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Otero School District Number R-1's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Otero School District Number R-1's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Otero School District Number R-1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beifong, Waller & Co., Inc.

February 21, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

To the Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050

Report on Compliance for Each Major Federal Program

We have audited East Otero School District Number R-1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of East Otero School District Number R-1's major federal programs for the year ended June 30, 2016. East Otero School District Number R-1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of East Otero School District Number R-1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Otero School District Number R-1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of East Otero School District Number R-1's compliance.

Opinion on Each Major Federal Program

In our opinion, East Otero School District Number R-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of East Otero School District Number R-1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Otero School District Number R-1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of East Otero School District Number R-1's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Otero School District Number R-1's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



February 21, 2017

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Report

An unmodified report has been issued on the financial statements of East Otero School District Number R-1

Internal Control – Financial Statements

No conditions were disclosed by the audit that are considered to be a material weakness.
No significant deficiencies not considered a material weakness were identified.

Noncompliance – Financial Statements

No instances of noncompliance in amounts material to the financial statements of East Otero School District Number R-1 were disclosed by the audit.

Internal Control – Federal Awards

No conditions were disclosed by the audit that are considered to be a material weakness.
No significant deficiencies not considered a material weakness were identified.

Report on Compliance – Major Programs

An unmodified report has been issued on East Otero School District Number R-1 Compliance for Major Programs.

Audit Findings

Audit findings requiring disclosure in accordance with 2 CFR Section 200.516(a) were not disclosed by the audit.

Major Programs

National School Breakfast	10.553
National School Lunch	10.555
Summer Program	10.559
Commodity Supplemental Food Program	10.555

Dollar Threshold to Distinguish Type A and Type B Programs

\$750,000.

Qualification as Low-Risk Auditee

The District qualified as a low-risk auditee for Fiscal Year 2015/2016.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

FINDINGS – FEDERAL AWARDS

None

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Federal Grantor/Program</u> <u>Federal Grantor/Program or Cluster Title</u>	<u>CFDA</u> <u>Number</u>	<u>Pass -</u> <u>Through</u> <u>Grantor</u>	<u>State</u> <u>Code</u> <u>Number</u>	<u>Expenditures</u>
<u>CHILD NUTRITION CLUSTER-CLUSTER</u>				
<u>U. S. Department of Agriculture</u>				
School Breakfast Program	10.553	CDE	4553	<u>261,461</u>
National School Lunch Program	10.555	CDE	4555	<u>489,067</u>
National School Lunch Program	10.555	CDHHS	4555	<u>53,958</u>
<u>Total National School Lunch Program</u>				<u>543,025</u>
Summer Food Service Program for Children	10.559	CDE	4559	<u>24,872</u>
<u>Total U.S. Department of Agriculture</u>				<u>829,358</u>
<u>TOTAL CHILD NUTRITION CLUSTER-CLUSTER</u>				<u>829,358</u>
<u>OTHER PROGRAMS</u>				
<u>U.S. Department of Energy</u>				
Early Childhood Readiness Assessment	84.412	CDE	5412	<u>985</u>
<u>Total Department of Energy</u>				<u>985</u>
<u>Department of Education</u>				
Title I Grants to Local Educational Agencies	84.010	CDE	4010	<u>692,412</u>
Career and Technical Education – Basic Grants to States	84.048	Otero Jr. College	5048	<u>3,884</u>
Rural Education	84.358	CDE	7358	<u>29,777</u>
Improving Teacher Quality State Grants	84.367	CDE	4367	<u>120,839</u>
<u>Total Department of Education</u>				<u>846,912</u>
<u>U.S. Department of Agriculture</u>				
Fresh Fruit and Vegetable Program	10.582	CDE	4582	<u>35,725</u>
<u>Total U.S. Department of Agriculture</u>				<u>35,725</u>
<u>TOTAL OTHER PROGRAMS</u>				<u>883,622</u>
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>				<u>1,712,980</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 1 **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the East Otero School District Number R-1 and is presented on the modified accrual basis of accounting. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2 **INDIRECT COST RATES**

All grants have been received from the Colorado Department of Education. The Department calculates an allowable indirect cost rate for individual sub-recipients and mandates that the rate be used as the maximum for the recovery of indirect cost. The District has recovered indirect cost from grant funds at an amount no greater than that allowed by the Colorado Department of Education and has not elected to use the 10% de minimis indirect cost rate allowed by Uniform Guidance.

NOTE 3 **FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value of commodities received.