

**MONTEZUMA COUNTY (CORTEZ)
SCHOOL DISTRICT RE-1**

Independent Accountants' Reports
And
Basic Financial Statements

June 30, 2016



RECEIVED

By Justin L. Smith at 10:29 am, Jan 04, 2017

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

TABLE OF CONTENTS June 30, 2016

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government -Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Governmental Activities	
Internal Service Fund	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Net Position	20
Statement of Cash Flows	21
Fiduciary Fund	
Agency Fund	
Statement of Fiduciary Net Position	22
Notes to the Financial Statements	23-45
Required Supplemental Information	46
Major Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
General Fund	47
Food Service Fund	48
Governmental Designated-Purpose Grants Fund	49
Schedule of the District's Pension Contributions	50
Schedule of the District's Proportionate Share of the Net Pension Liability	51
Other Supplementary Information	52
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
Debt Service Fund	
Bond Redemption Fund	53
Capital Projects Fund	
High School Capital Projects Fund	54
Capital Reserve Fund	55

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

TABLE OF CONTENTS

June 30, 2016

Other Supplementary Information - continued

Proprietary Fund	
Internal Service Fund	
Self Insurance Fund	56
Fiduciary Fund	
Agency Fund	
Pupil Activity Fund	57

Information Required by Oversight Authorities

Independent Auditors' 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	58 59-60
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	61-62
Schedule of Expenditure of Federal Awards	63
Notes to the Schedule of Expenditures of Federal Awards	64
Schedule of Findings and Questioned Costs	65
Summary of Prior Audit Findings	66
Schedule of Corrective Action Plan	67
Colorado Department of Education Auditors' Integrity Report	68

Majors and Haley, P.C. Certified Public Accountants

P.O. Box 1478
Cortez, CO 81321
(970) 565-9521
Fax: (970) 565-9441

Chris L. Majors, CPA, MT

Lori Hasty Haley, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Montezuma County (Cortez) School District RE-1
Cortez, Colorado 81321

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Montezuma County (Cortez) School District RE-1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Children's KIVA Montessori, which represent 10.1 percent, 36.9 percent, and 33.9 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Montezuma County (Cortez) School District RE-1, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows 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, pension information and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 the Montezuma County (Cortez) School District RE-1's basic financial statements. The other supplemental information and information required by oversight authorities, including the budgetary comparison schedules and Colorado Department of Education Auditors' Integrity Report, as listed in the table of contents, 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 Regulation (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison schedules, Colorado Department of Education Auditors' Integrity Report 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the budgetary comparison schedules, Colorado Department of Education Auditors' Integrity Report 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 Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the Montezuma County (Cortez) School District RE-1's internal control over financial reporting and on our tests of its compliance with certain provision 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 over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montezuma County (Cortez) School District RE-1's internal control over financial reporting and compliance.

Majors and Haley, PC

Majors and Haley PC
Cortez, Colorado
November 21, 2016

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Montezuma County (Cortez) School District RE-1, Colorado's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The District's net position, resulting from of this year's operations, increased \$455,155.
 - The District showed an increase of \$2,166,044, before the increase in net pension expense of \$1,710,889, due to the implementation of GASB 68, relating to how pension expenses are presented. The increase of \$2,166,044 was attributable to \$1,251,294 from delinquent tax collections from Kinder Morgan and \$969,186 from the Self Insurance Fund.
- The District's total revenue was \$29,002,807 which is a decrease of \$10,709,282 from \$39,712,089 in the prior year.
 - General revenues (primarily state equalization and property tax) accounted for \$20,491,665 in revenue or 70.6% of all revenues. Program specific revenues in the form of charges for services and grants account for \$8,511,142 the remaining 29.4%.
- The District incurred \$28,547,652 in expenses which is an increase of \$3,980,817 from \$24,566,835 in the prior year. \$8,511,142 of these expenses were offset by program specific charges for services, grants and contributions. The general revenues of \$20,491,665 was adequate to cover the expenditures that were not offset by program specific revenues.
- The General Fund reported a \$1,718,862 increase in fund balance from \$3,919,610 in the prior year to \$5,638,472. This increase is 43.9%. However, \$1,251,294 of the increase are tax revenues collected from Kinder Morgan and recorded as a committed fund balance in case the monies must be returned. The General Fund increase is \$467,568 without the \$1,251,294.
 - The General Fund revenues decreased (excluding the \$1,251,294 above) \$320,532 from \$19,344,463 to \$19,023,931, for an 1.6% decrease.
 - The General Fund expenditures increased \$365,749 from \$18,190,614 in the prior year to \$18,556,363.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components.

- Government-wide financial statements.
- Fund financial statements.
- Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The Government-wide financial statements are designed to provide the reader of the District's Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the Statement of Net Position and the Statement of Activities.

- The Statement of Net Position presents information about all of the District's assets, liabilities and deferred outflows/inflows, with the difference reported as net position.
- The Statement of Activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all of the revenues and expenses are taken into account regardless of when cash is received or paid.

The Government-wide financial statements are one way to measure the District's financial health, or financial position

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school facilities.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2016

In the government-wide financial statements, the District's activities are presented in the following category:

- **Governmental activities** - Most of the District's basic services are included here, such as instruction, transportation, maintenance and operations, and administration. These activities are financed mainly through property taxes and state equalization funds.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by state law. However, the District establishes other funds to help it manage and control its finances to achieve certain results.

The District uses three types of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. Governmental fund information helps one 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, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them. The District maintains six different governmental funds. They are the General Fund, Food Service Fund, Governmental Designated-Purpose Grants Fund, Bond Redemption Fund, the High School Building Fund and the Capital Projects Fund. They are all considered major funds.
- **Proprietary funds** - Services for which the District charges a fee are generally reported in proprietary funds. The District maintains one type of proprietary fund. The internal service fund. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the employee medical benefit activities related to the District's employee medical benefit insurance needs.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2016

- **Fiduciary funds-** The District is the agent, or fiduciary, for assets that belong to others, such as the Pupil Activity Fund. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, net position was \$6,146,004 at the close of the most recent fiscal year.

Net investment in capital assets (e.g. land and improvements, buildings, and equipment net any related debt to acquire those assets that is still outstanding) represents \$33,191,393 of the net position. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Property taxes are levied specifically to fund debt service on general obligation bonds.

An additional \$4,962,273 of the net position represents resources that are subject to external restrictions on how they may be used. \$760,000 of the restricted net position is an emergency reserve required by the Tabor amendment; \$1,372,468 is for the repayment of the general obligation bonds and \$2,829,805 is for the construction of the high school.

\$1,251,294 is committed by the Board of Education for repayment (if necessary) to Kinder Morgan for property taxes paid by Kinder Morgan that are being protested.

The remaining (\$33,258,956) is unrestricted net position. The negative balance is due to the implementation of GASB 68, resulting in a net pension liability of \$39,425,094, representing the District's share of the state retirement system plan.

The following table indicates a summary of the Statement of Net Position for Governmental Activities as of June 30, 2016, and 2015.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As of and for the Year Ended June 30, 2016

Table 1

Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	2016	2015
Assets		
Current assets	\$ 14,975,179	\$ 20,608,402
Capital assets, net of depreciation	51,966,699	45,040,154
Total assets	<u>66,941,878</u>	<u>65,648,556</u>
Deferred Outflows of Resources	<u>5,344,896</u>	<u>1,590,008</u>
Liabilities		
Current liabilities	2,434,092	2,490,861
Noncurrent liabilities	61,785,084	58,920,190
Total liabilities	<u>64,219,176</u>	<u>61,411,051</u>
Deferred Inflows of Resources	<u>1,921,594</u>	<u>136,664</u>
Net Position		
Invested in capital assets	33,191,393	25,421,242
Restricted	4,962,273	13,060,098
Committed	1,251,294	
Unrestricted	(33,258,956)	(32,790,491)
Total net position	<u>\$ 6,146,004</u>	<u>\$ 5,690,849</u>

At the close of the most recent fiscal year current assets, \$14,975,179, comprised 22.4% of total assets, decreasing from 31.4% in the prior year. The investments in capital assets, less depreciation make up the remaining 77.6% of assets. Accrued wages and benefits represent 92.1% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other District employee's work nine or ten months of the year, but are paid over a full twelve months. Current liabilities decreased \$56,769 from \$2,490,861 in the prior year to \$2,434,092. There was a net increase in noncurrent liabilities from the prior year of \$2,864,894, due to the net pension liability increase of \$3,708,500 net of the \$843,606 in current year debt payments. Deferred outflows of resources net of deferred inflows of resources increased \$1,969,958, mostly due to the implementation of GASB 68.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As of and for the Year Ended June 30, 2016

The following table indicates the summary of Changes in Net Position for Governmental Activities in the fiscal year 2016 and 2015.

Table 2
Comparative Summary of Changes in Net Position
For the Year Ending June 30

	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Charges for services	\$ 4,191,166	\$ 1,029,644
Operating grants and contributions	4,247,288	4,103,606
Capital grants and contributions	72,688	14,815,178
General revenues		
Taxes	16,418,988	14,220,824
State Equalization	3,250,355	4,476,113
Other	822,322	1,066,724
Total revenues	<u>29,002,807</u>	<u>39,712,089</u>
Expenses		
Instruction	13,371,748	12,902,315
Students and instructional staff	3,631,992	2,861,753
Administration and business	2,267,323	2,936,797
Operations and maintenance of plant	2,177,929	2,042,887
Student transportation	1,157,760	1,098,566
Central and other support services	2,642,253	276,490
Food service operations	1,180,243	1,161,758
Facilities acquisition	1,545,958	689,655
Interest on long-term debt	572,446	596,614
Total expenses	<u>28,547,652</u>	<u>24,566,835</u>
Increase (decrease) in net position	<u>\$ 455,155</u>	<u>\$ 15,145,254</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

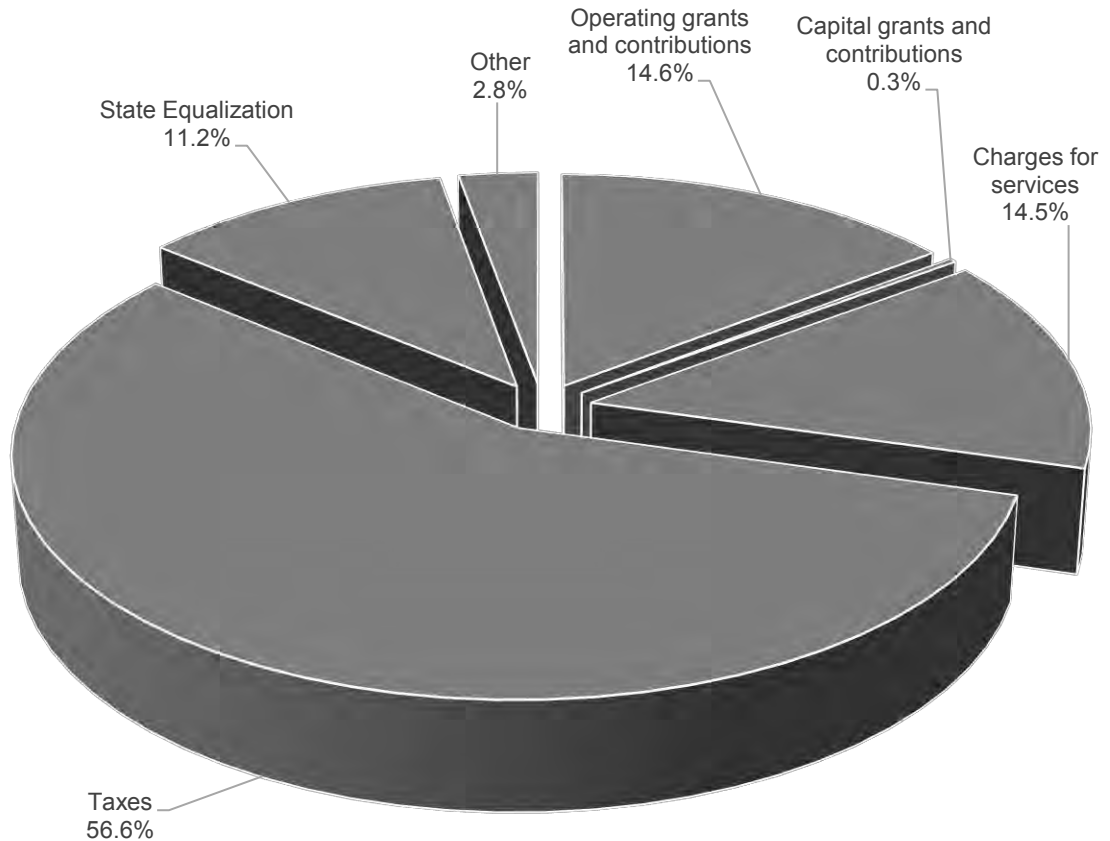
**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2016

State equalization and taxes accounted for most of the District's total revenue, with each contributing 11.2 percent and 56.6 percent respectively. Another 14.9 percent came from state and federal grants and the remainder from charges for services and miscellaneous sources. See Table 3.

The District's expenses are predominately related to instruction, (48.4 percent). The District's administrative and business activities accounted for 8.2 percent of total costs. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2016

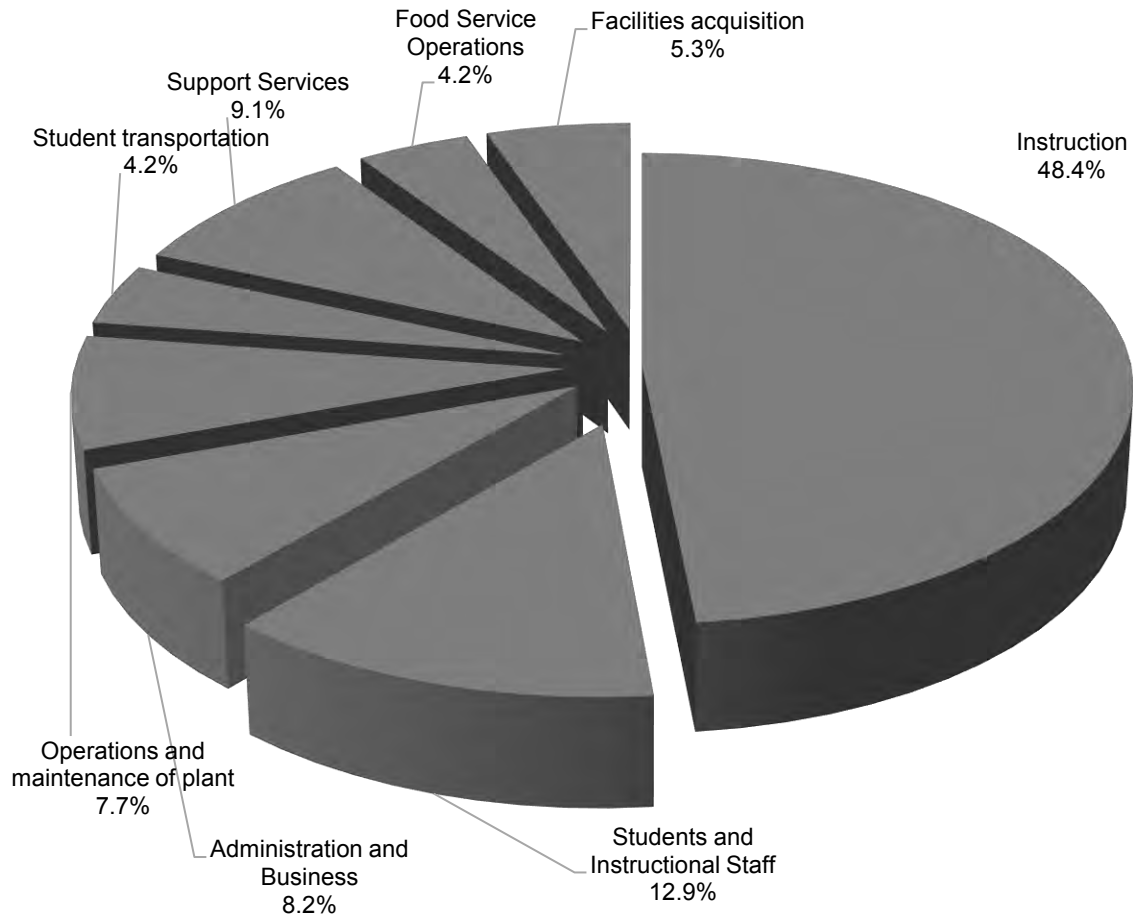


MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2016

Table 4
Expenses for Fiscal Year 2016



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994 (SFA). Under the SFA the District received \$6,966.07 per funded student. In fiscal year 2016 the funded pupil count was 2,690.8. Charter Schools accounted for 281.2 of this funded pupil count. Funding for the SFA comes from property taxes, specific ownership taxes and state equalization. The District receives approximately 28 percent of this funding from state equalization while the remaining SFA funding amounts consist of property and specific ownership taxes.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2016

The statement of activities shows the cost of program services and the charges for services and grants offsetting those service costs. Table 5 shows, for governmental activities, the total cost of services and net cost of services. That is, it identifies the cost of these services supported by unrestricted state equalization and property taxes.

Table 5
Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$ 13,371,748	\$ 12,902,315	\$ 11,443,325	\$ 10,770,157
Students and Instructional staff	3,631,992	2,861,753	1,925,417	1,644,770
Administration and Business	2,267,323	2,936,797	2,177,293	2,595,825
Operations and maintenance of plant	2,177,929	2,042,887	2,177,929	2,001,265
Student transportation	1,157,760	1,098,566	864,387	835,474
Central and other support services	2,642,253	276,490	(533,274)	269,242
Food service operations	1,180,243	1,161,758	148,204	30,583
Facilities acquisition	1,545,958	689,655	1,260,783	(14,125,523)
Interest on long-term debt	572,446	596,614	572,446	596,614
Total	\$28,547,652	\$24,566,835	\$20,036,510	\$ 4,618,407

- The cost of all governmental activities during the year was \$28,547,652.
- Some of the cost was financed by the users of the District's programs (\$4,191,166).
- Federal and state government subsidized \$4,319,976.
- However, most of the District's costs (\$20,036,510) were financed by State and District taxpayers. This portion of governmental activities was financed for the most part with \$3,250,355 in state equalization, net of per pupil charter school allocation, from the School Finance Act of 1994 (SFA) and \$16,418,988 in property and specific ownership taxes.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has six funds that are considered major under GASB 34 reporting requirements. Information about the District's government funds starts on page 16.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2016

These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues and other financing sources of \$25,840,499 and expenditures and other financing uses of \$32,413,792.

General Fund Budgetary Highlights

The District's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General Fund.

Over the course of the year, the District revised the annual operating budget by making an increase in appropriations.

- Increases in appropriations were due primarily to additional funding that was received after the original budget was prepared.
- Actual expenditures, including transfers were \$1,223,754 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2016, the District has invested \$74,098,694 in land, buildings, and equipment (including vehicles). Table 6 shows capital assets for 2016 compared to 2015:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2016	2015
Land	\$ 812,080	\$ 812,080
Construction in Progress		32,400,956
Buildings	69,907,141	29,058,787
Equipment	3,379,473	3,358,520
Total	<u>\$ 74,098,694</u>	<u>\$ 65,630,343</u>

Additional information on the District's capital assets can be found in Note 5 on page 33 of this report.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2016

LONG-TERM DEBT

General obligation bonds were issued November 27, 2012 and February 6, 2013, respectively, for the purpose of constructing a new high school. At June 30, 2015 the balance of these bonds was \$19,618,912. During fiscal year 2016 the District paid principal of \$843,606 to take the balance at June 30, 2016 to \$18,775,306. Additional information can be found in Note 7 on page 34 of this report.

CHARTER SCHOOLS

The Battlerock Charter School, the Southwest Open School and the Children's Kiva Montessori Charter School have been included in the District's basic financial statements in a separate column, as discretely presented component units. The Charter Schools audits are located in the administration office of each of the Schools.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District is not aware of any existing circumstances that could significantly affect its financial health in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, parents, 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, the financial statements of the component units, or need additional financial information, contact the Business Office, Montezuma County (Cortez) School District RE-1, P.O. Drawer R; 400 North Elm Street, Cortez, Colorado 81321.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Statement of Net Position

June 30, 2016

	<u>Primary Government</u>	<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Charter Schools</u>
Assets		
Cash and investments	\$ 13,575,122	\$ 1,348,597
Cash with fiscal agent	983,965	
Taxes receivable	339,983	
Due (to) from District/Charter Schools	(95,541)	95,541
Grants accounts receivable	171,650	48,276
Other receivables		18,923
Prepaid expenses		4,000
Capital assets - net of depreciation	51,966,699	732,451
Total Assets	66,941,878	2,247,788
Deferred Outflows of Resources		
Pensions, net of accumulated amortization	5,344,896	653,117
Liabilities		
Interfund		3,777
Accounts payable	62,687	7,311
Accrued salaries and benefits payable	2,242,384	200,709
Grants deferred revenue	110,826	21,721
Other current liabilities	18,195	
Long-term liabilities		
Due within one year	866,559	1,989
Due in more than one year	17,908,747	
Net pension liability	43,009,778	3,867,476
Total Liabilities	64,219,176	4,102,983
Deferred Inflows of Resources		
Unearned revenue - property tax	161,382	
Pensions, net of accumulated amortization	1,760,212	213,098
Total Deferred Inflows of Resources	1,921,594	213,098
Net Position		
Net investment in capital assets	33,191,393	732,451
Restricted		
TABOR	760,000	77,000
Debt service	1,372,468	
Capital projects	2,829,805	
Unrestricted	(32,007,662)	(2,224,627)
Total Net Position	\$ 6,146,004	\$ (1,415,176)

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Statement of Activities

For the Year Ended June 30, 2016

	Program revenues			Net (expenses) revenues and changes in net position	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units Charter Schools
	Expenses				
Primary Government					
Governmental Activities					
Instructional program services	\$ 13,371,748	\$ 827,466	\$ 1,100,957	\$ (11,443,325)	
Support program services					
Students	1,461,412		531,788	(929,624)	
Instructional staff	2,170,580		1,174,787	(995,793)	
General administration	385,889			(385,889)	
School administration	1,465,425		39,046	(1,426,379)	
Business	416,009		50,984	(365,025)	
Plant operation and maintenance	2,177,929			(2,177,929)	
Student transportation	1,157,760		293,373	(864,387)	
Central support services	2,573,020	3,160,574	14,953	602,507	
Other support services	69,233			(69,233)	
Food service operations	1,180,243	203,126	828,913	(148,204)	
Facilities acquisition	1,545,958		212,487	(1,260,783)	
Interest on long-term debt	572,446			(572,446)	
Total Governmental Activities	28,547,652	4,191,166	4,247,288	72,688	(20,036,510)
Total Primary Government	\$ 28,547,652	\$ 4,191,166	\$ 4,247,288	\$ 72,688	(20,036,510)
Component Units - Charter Schools	\$ 2,821,206	\$ 562,654	\$ 252,266	\$ 25,720	\$ (1,980,566)
General Revenues					
Property tax for general purposes				13,848,634	
Property tax for repayment of debt				1,469,295	
Specific ownership tax for general purposes				1,101,059	
Intergovernmental					
State Equalization				5,208,694	
Per pupil charter school allocation				(1,958,339)	1,958,339
State audited adjustments				(66,292)	
Mineral leasing				195,895	
Public lands				107,055	7,128
Impact aid				561,078	45,413
Miscellaneous				24,586	6,686
Total General Revenues				20,491,665	2,017,566
Changes in Net Position				455,155	37,000
Net Position Beginning of the Year				5,690,849	(1,452,176)
Net Position End of the Year				\$ 6,146,004	\$ (1,415,176)

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Governmental Funds
Balance Sheet

June 30, 2016

	General Fund	Food Service Fund	Governmental Designated- Purpose Grants Fund	Bond Redemption Fund	High School Building Fund	Capital Projects Fund	Total Governmental Funds
Assets							
Cash and investments	\$ 7,584,340	\$ 254,441	\$ 109,643	\$ 1,349,738	\$ 1,963,711	\$ 870,926	\$ 12,132,799
Cash with fiscal agent	35,030			4,092	908,843		947,965
Taxes receivable	304,503			35,480			339,983
Interfund receivable	(89,089)		90,519				1,430
Grants accounts receivable			171,650				171,650
Total Assets	<u>\$ 7,834,784</u>	<u>\$ 254,441</u>	<u>\$ 371,812</u>	<u>\$ 1,389,310</u>	<u>\$ 2,872,554</u>	<u>\$ 870,926</u>	<u>\$ 13,593,827</u>
Liabilities							
Due to Charter Schools	\$ 95,541						\$ 95,541
Interfund payable			\$ 1,430				1,430
Accounts payable	17,835		2,103		\$ 42,749		62,687
Accrued salaries and benefits payable	1,910,303	\$ 71,735	260,346				2,242,384
Grants deferred revenue	9,898		100,928				110,826
Other current liabilities	18,195						18,195
Total Liabilities	<u>2,051,772</u>	<u>71,735</u>	<u>364,807</u>		<u>42,749</u>		<u>2,531,063</u>
Deferred Inflows of Resources							
Unearned revenue - property tax	<u>144,540</u>			<u>\$ 16,842</u>			<u>161,382</u>
Fund Balances							
Restricted							
TABOR	760,000						760,000
Debt service				1,372,468			1,372,468
Capital projects					2,829,805		2,829,805
Committed	1,251,294						1,251,294
Unrestricted							
Assigned for next year's expenditures	3,627,178	182,706	7,005			\$ 870,926	4,687,815
Total Fund Balances	<u>5,638,472</u>	<u>182,706</u>	<u>7,005</u>	<u>1,372,468</u>	<u>2,829,805</u>	<u>870,926</u>	<u>10,901,382</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,834,784</u>	<u>\$ 254,441</u>	<u>\$ 371,812</u>	<u>\$ 1,389,310</u>	<u>\$ 2,872,554</u>	<u>\$ 870,926</u>	<u>\$ 13,593,827</u>

Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position

Total Fund Balance Governmental Funds \$ 10,901,382

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

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

Capital assets	\$ 74,098,694	
Accumulated depreciation	(22,131,995)	
		<u>51,966,699</u>

Long-term liabilities and related items, including net pension liability and pension-related deferred outflows/inflows of resources, are not due and payable in the current year, and, therefore, are not reported in governmental funds.

Due within one year	(866,559)	
Due in more than one year	(17,908,747)	
Net pension liability	(43,009,778)	
Deferred outflows of resources related to pensions - net	5,344,896	
Deferred inflows of resources related to pensions - net	(1,760,212)	
		<u>(58,200,400)</u>

The internal service funds are used by the District to account for the costs of employee medical benefits. The assets and liabilities of the internal service fund is included with governmental activities.

1,478,323

Total Net Position Governmental Activities \$ 6,146,004

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
 Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2016

	General Fund	Food Service Fund	Governmental Designated- Purpose Grants Fund	Bond Redemption Fund	High School Building Fund	Capital Projects Fund	Total Governmental Funds
Revenues							
Local sources							
Taxes	\$ 14,949,693			\$ 1,469,295			\$ 16,418,988
Other	608,362	\$ 203,235	\$ 236,390	2,690	\$ 1,888	\$ 213,366	1,265,931
Intermediate sources	302,951						302,951
State sources							
State Equalization	5,208,694						5,208,694
Per pupil charter school allocation	(1,958,339)						(1,958,339)
Grants	602,786	19,341	672,373			72,688	1,367,188
Federal sources							
Grants	561,078	809,572	1,864,436				3,235,086
Total Revenues	20,275,225	1,032,148	2,773,199	1,471,985	1,888	286,054	25,840,499
Expenditures							
Instructional program services	11,331,299		978,264				12,309,563
Support program services							
Students	822,378		515,168				1,337,546
Instructional staff	914,562		1,174,787				2,089,349
General administration	360,930						360,930
School administration	1,322,200		19,165				1,341,365
Business	336,919		50,984			51	387,954
Plant operation and maintenance	2,058,942					5,561	2,064,503
Student transportation	1,003,239		15,978				1,019,217
Central support services	359,196						359,196
Other support services	46,698		14,953				61,651
Food service operations		1,118,152				9,792	1,127,944
Facilities acquisition			8,182		8,155,646	374,694	8,538,522
Debt service				1,416,052			1,416,052
Total Expenditures	18,556,363	1,118,152	2,777,481	1,416,052	8,155,646	390,098	32,413,792
Excess revenues over (under) expenditures	1,718,862	(86,004)	(4,282)	55,933	(8,153,758)	(104,044)	(6,573,293)
Net Change in Fund Balances	1,718,862	(86,004)	(4,282)	55,933	(8,153,758)	(104,044)	(6,573,293)
Fund Balances Beginning of the Year	3,919,610	268,710	11,287	1,316,535	10,983,563	974,970	17,474,675
Fund Balances End of the Year	\$ 5,638,472	\$ 182,706	\$ 7,005	\$ 1,372,468	\$ 2,829,805	\$ 870,926	\$ 10,901,382

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-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

Net Change in Fund Balances Governmental Funds \$ (6,573,293)

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay	\$ 8,468,351	
Depreciation expense	(1,541,806)	
		6,926,545

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change in net position liability, pension-related deferred outflows/inflows of resources in the current period.

Pension contributions	(2,178,998)	
Pension expense	468,109	
Principal payment on long-term debt	843,606	
		(867,283)

The change in net position of the internal service fund is reported with governmental activities. 969,186

Change in Net Position of Governmental Activities \$ 455,155

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Proprietary Fund
Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Assets	
Current Assets	
Cash and investments	\$ 1,442,323
Cash with fiscal agent	36,000
Total Current Assets	<u>1,478,323</u>
Total Assets	<u>1,478,323</u>
Net Position	
Restricted	1,478,323
Total Net Position	<u>\$ 1,478,323</u>

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2016

	Governmental Activities
	Internal Service Fund
	Self-Insurance Fund
Operating Revenues	
Premiums	\$ 3,160,574
Operating Expenses	
Central service	
Purchased services	
Other	(2,193,122)
Operating income (loss)	967,452
Non-Operating Revenue (Expense)	
Local sources	
Earnings on investments	1,734
Income (loss) before operating transfers	969,186
Operating Transfers	
Transfers in	
Net income (loss)	969,186
Net Position Beginning of the Year	509,137
Net Position End of the Year	\$ 1,478,323

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Proprietary Funds
Statement of Cash Flows

For the Year Ended June 30, 2016

	<u>Governmental Funds</u>
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Cash Flows from Operating Activities	
Cash received from customers	\$ 3,160,574
Cash payments to suppliers for goods and services	(2,193,122)
Net Cash Flows provided (used) by Operating Activities	<u>967,452</u>
Cash Flows from Investing Activities	
Earnings on investments	1,734
Net Cash Flows provided (used) by Investing Activities	<u>1,734</u>
Net Increase (Decrease) in Cash and Cash Equivalents	969,186
Cash and Cash Equivalents Beginning of the Year	509,137
Cash and Cash Equivalents End of the Year	<u>\$ 1,478,323</u>
Reconciliation of operating income (loss) to Net Cash provided (used) by Operating Activities	
Operating income (loss)	\$ 967,452
Total adjustments	
Net Cash Flows provided (used) by Operating Activities	<u>\$ 967,452</u>

The accompanying notes are integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Fiduciary Fund

Statement of Fiduciary Net Position

As of June 30, 2016

	<u>Agency Fund</u>
Assets	
Cash	\$ 271,912
Total Assets	<u>\$ 271,912</u>
Liabilities	
Accounts payable	\$ 1,202
Due to agency recipients	270,710
Total Liabilities	<u>\$ 271,912</u>

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

1. **Summary of Significant Accounting Policies**

The financial statements of Montezuma County (Cortez) School District RE-1 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements of Interpretations).

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

Reporting Entity - The District is governed by a seven-member Board of Education (“Board”) and is organized and operates in accordance with Colorado statutes. Board members are elected by the citizens of the District, not appointed by any other governing body. The Board selects the superintendent of schools. The Board is solely responsible for the District’s budget adoption process. The District has the authority to levy taxes and issue debt. The District meets the criteria of a primary government; its’ board is the publicly elected governing body; it is a legally separate entity; and it is fiscally independent. The District is not included in any other government reporting entity.

Charter Schools - The Legislature of the State of Colorado enacted the “Charter School Act – Colorado Revised Statutes (CRS) Section 22-30.5-101 in 1993. This act permits the District to contract with individuals and organizations for the operation of schools within the District. The statutes define these contracted schools as “charter schools.” Charter schools are financed from a portion of the District’s School Finance Act Revenues (based on student enrollment), state and federal grants, as well as other revenues generated by the charter schools, within the limits established by the Charter School Act. Charter schools have separate governing boards; however, the District’s Board of Education must approve all charter school applications and budgets. Based on criteria set forth in GASB Statement 61, The Financial Reporting Entity: Omnibus and amendment of GASB 14 and 34, the Battlerock Charter School, the Southwest Open School and the Children’s Kiva Montessori Charter School have been included in the District’s basic financial statements in a separate column, as discretely presented component units. The Charter Schools audits are located in the administration office of each of the Schools.

Government-wide and Fund Financial Statements - The government-wide financial statements (the statement of net position and the statement of activities) display information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from Business-type activities, which rely to a significant extent on charges for support. Likewise, the primary government is reported separately from its legally separate component units for which the District is financially accountable.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. The District has no non-major funds.

Measurement Focus and Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. On an accrual basis, property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

Governmental Funds – Governmental funds are used to account for the District's general governmental activities including the collection and disbursement of earmarked funds (special revenue funds). Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and capital leases are reported as other financing sources.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Those revenues subject to accrual are property taxes, charges for services and expended grants associated with the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include local property taxes, specific ownership taxes, and State of Colorado equalization funding, as determined by the School Finance Act of 1994, as amended.

Food Service Fund – The Food Service Fund is used to account for the financial transactions related to the food service operations of the District.

Governmental Designated Purpose Grants Fund - The Governmental Designated Purpose Grants Fund maintains a separate accounting for programs funded by federal, state and local grants.

Bond Redemption Fund – The Bond Redemption Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

High School Building Fund – The High School Building Fund is used to account for the accumulation of funds from the Colorado BEST Grant and the voter approved general obligation bonds along with the associated expenditure of those funds for the construction of a new high school.

Capital Projects Fund – The Capital Projects Fund is used to account for the accumulation of resources and expenditure of resources for capital improvements within the District.

Proprietary Funds – Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenues of the District's enterprise funds are charges for services. Operating expenses for enterprise funds include cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District reports the following proprietary fund:

Internal Service Fund – Self Insurance Fund – The Self Insurance Fund is used to account for the District's medical benefit program.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Fiduciary Funds – Fiduciary Funds reporting focuses on net assets and changes in net assets. The fiduciary funds account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs.

Agency Funds – Agency Funds are custodial in nature and does not present results of operations or a measurement focus. The District has one agency fund, the Pupil Activity Fund.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity

Cash and Investments - Cash and cash equivalents for the purpose of the statement of cash flows, are to be considered highly liquid investments with original maturities of three months or less. Investments in external investment pools are stated at cost, which is equal to fair value.

Due to/from Charter Schools - Due to/from Charter Schools represents amounts that are due to/from the Charter Schools. The amounts are normal transactions that are paid in the next two months or less.

Short-term Interfund Receivable/Payables – During the course of operations, transactions occur between individual funds for goods or services rendered. These are paid in the next two months or less.

Grants Accounts Receivable - State and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Grants receivable are recorded when expenditures are made and the grant monies have not been received.

Capital Assets - Capital assets, which include land, building and improvements, furniture, equipment, and vehicles are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The District maintains a capitalization threshold of \$25,000 for major outlays for buildings and improvements. The District does not possess any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the life of an asset are not capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Improvements	20-50 Years
Furniture and Equipment	5-15 Years
Vehicles	8 Years

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

In addition to the liabilities, the statement of financial position and balance sheets 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 and fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Accrued Salaries and Benefits Payable – Accrued salaries and benefits payable represent the liability to teachers and certain other employees who earn their salaries over the nine-month school year but are paid over a twelve-month period. Changes in the accrual are reflected in expenditures or expense on the applicable fund's statement of revenue, expenditures and changed in fund balance.

Compensated Absences – Under the District's policies, employees earn vacation leave and sick leave based on longevity of services or position.

Instructional staff vacation must be taken during the summer, before the succeeding school term, or be lost. Administrative staff vacation shall be 16 days per year. Unused vacation may be accumulated up to 30 days. Vacation for support staff accumulates at 10 to 20 days per year. Unused vacation can accumulate up to 5 days. Vacations are to be taken throughout the year (and not accumulate over into another year). Vacation is not accrued since the amount does not exceed a normal year's accumulation.

Sick leave with pay shall be granted to each employee of the District. It may be used for the employee's illness, quarantine or disability or for the illness or death of members of the immediate family.

Sick leave will begin accruing on the first day of employment and will accrue at the rate of 10 days per year, plus an additional two days for employees having twelve-month contracts. A maximum of 60 days sick leave may be accumulated. Days, as specified here pertain to teaching days.

If an employee is unable to return to work after sixty (60) consecutive working days, he will be dropped from the payroll and transferred to income protection, but he will maintain his tenure and salary increment status at the time of his illness or disability if he returns to service in the District within 24 months from the date of the beginning of personal deduction. Accumulated sick leave does not vest with the employee; that is, the employees have no right to be reimbursed for unused sick leave if they terminate. Under generally accepted accounting principles, there is, therefore, no expense or liability for accumulated sick leave or vacation included in the financial statements.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Grants Deferred Revenues – Grants deferred revenue arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Long-term Debt - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity - The fund balances of the governmental funds are reported in classifications based on the extent to which the District is bound to honor constraints for the specific purposes on which amounts in the fund can be spent as follows;

- Nonspendable fund balance represents assets that cannot be spent because of their form or legally or contractually must be maintained intact.
- Restricted fund balance reflects resources that are subject to externally enforceable legal limitations.
- Committed fund balance is the portion that is limited to specific purposes determined by a formal action of the Board of Education, the District's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Education.
- Assigned fund balance displays the District's intended use of these resources. The assigned fund balance amounts are assigned by the business manager, per the District policy.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balance consists of required TABOR reserves of \$760,000, debt service per covenants of \$1,372,468 and the High School Capital Projects of \$2,829,805.

When determining categories of fund balance, it is assumed that the type of expenditure determines the primary use of fund balance. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Once the commitment or assignment is satisfied unassigned resources are used.

Net Position - Net position represents the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Pensions – The District participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and 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.

Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Property Tax Revenue Recognition - Property taxes for a calendar year are certified by the Board of Education by December 15 and levied on assessed valuation by the county commissioners by December 22, are due and payable in the subsequent calendar year. Assessed values are established by the county assessor. Property taxes attach as an enforceable lien on property as of January 1 of the year in which payable. Property taxes are payable in full by April 30 or in two equal installments due February 28 and June 15. The county bills and collects property taxes for all taxing districts in the county. The property tax receipts collected by the county are generally remitted to the District in the subsequent month.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are premiums related to medical benefits. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting - The District is required by Colorado Statutes to adopt annual budgets for all funds. Each budget is prepared on the same basis (GAAP basis) as that used for accounting purposes.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the Superintendent's staff 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.

Public hearings are conducted to obtain comments.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Prior to June 30, the budget is legally adopted through passage of a resolution by the Board of Education. However, the Board can review and change the adopted budget through January 31.

Formal budgetary integration is employed as a management control device during the year. Encumbrance accounting is employed by the District. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

2. *Cash and Investments*

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits might not be recovered. However, there is no custodial risk for public deposits because they are collateralized under the Colorado Public Deposit Protection Act (PDPA). The PDPA specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local governmental depositors as a group, with a market value at least 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

For investments, custodial risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Colorado statutes define eligible investments for local governments. Those include bonds and other interest-bearing obligations of or guaranteed by the United States government or its agencies, bonds which are direct obligations of the State of Colorado or any of its political subdivisions, repurchase agreements, commercial paper, guarantee investment contracts and local government investment pools. The District has no investments exposed to custodial credit risk.

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Colorado revised statutes limits maturities to five years or less. The District has no investments exposed to interest rate risk.

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Credit risk in the portfolio is minimized by investing the majority of asset in US Treasury and Instrumentalities which have the support of US government and failure to receive maturing funds is remote.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

At June 30, 2016, the District had investments in one local governmental investment pool, the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is routinely monitored by the Colorado Division of Securities with regard to its operations and investments, which are also subject to provisions of C.R.S. Title 24, Article 75, and Section 6. The fair value of the investments in COLOTRUST is the same as the value of the pool shares. None of these types of investments are categorized because they are not evidenced by securities that exist in physical or book entry form. COLOTRUST is rated AAAM from Standard and Poor's. Financial statements for COLOTRUST may be obtained at www.colotrust.com.

At June 30, 2016, the carrying amount of the District's cash and investments was \$13,847,034, including \$271,912 of agency fund deposits. The District's bank balances were \$5,437,190 and COLOTRUST balances were \$8,736,281. The District's bank balances at June 30, 2016 and during the year ended June 30, 2016 were entirely covered by FDIC insurance or pledged collateral held by the District's agent banks in the name of governmental accounts of which the District is a part.

3. Interfund Balances and Transfers

Balances of interfund receivables, payables and transfers at June 30, 2016 are as follows:

Fund	Due To	Due From
General Fund	\$ 89,089	
Governmental Designated Purpose Grants Fund	1,430	\$ 90,519
Totals	<u>\$ 90,519</u>	<u>\$ 90,519</u>

There were no transfers in fiscal year 2016.

All interfund receivables and payables are the result of normal business and are expected to be paid in the next two months or less.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

4. Federal and State Administered Grants

Federal and state administered grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned. Receivables and Deferred Revenues at June 30, 2016 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Deferred Revenue</u>
Governmental Designated Purpose Grants Fund		
Local Grants		\$ 3,487
State Grants		
From Colorado Department of Education		
ELPA		42,399
Read Act		9,898
Federal Grants		
From Colorado Department of Education		
Title I	\$ 96,741	
Title II Part A Teacher Quality	17,792	
21st Century	7,518	
Title VI Part B Rural and Low Income	5,248	
Other Grants	44,351	55,042
 Totals	 <u>\$ 171,650</u>	 <u>\$ 110,826</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

5. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 follows:

	Capital Assets <u>July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	Capital Assets <u>June 30, 2016</u>
Governmental Activities				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 29,058,787	\$ 40,848,354		\$ 69,907,141
Equipment	3,358,520	20,953		3,379,473
Less Accumulated Depreciation	(20,590,189)	(1,541,806)		(22,131,995)
Total Capital Assets, being depreciated	<u>11,827,118</u>	<u>39,327,501</u>	-	<u>51,154,619</u>
Capital Assets, not being depreciated				
Land	812,080			812,080
Construction in Progress	32,400,956		\$(32,400,956)	-
Total Governmental Activities Capital Assets	<u>\$ 45,040,154</u>	<u>\$ 39,327,501</u>	<u>\$(32,400,956)</u>	<u>\$ 51,966,699</u>

Depreciation expense was charges as a direct expense to the following governmental programs:

Instruction	\$ 3,018
Operations and Maintenance	7,353
Transportation	72,992
Food Service Operations	3,609
Facility Acquisition	1,454,834
Total Depreciation Governmental Activities	<u>\$ 1,541,806</u>

6. Accrued Salaries

Certified instructors of the District are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract, but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling \$2,242,384, is reflected as an accrued expense at June 30, 2016.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

7. Long-Term Debt

Series 2012H Certificate of Participation, Tax Exempt Matching Money Bonds, Series 2013 General Obligation Bonds Payable - These general obligation bonds were issued November 27, 2012 and February 6, 2013, respectively, for the purpose of constructing a new high school. The Series 2012H Certificate of Participation Bonds of \$19,357,769 were used to match \$22,724,338 in State of Colorado BEST program funds as required under the State of Colorado Building Excellent Schools Today Qualified School Construction Program. The proceeds from the bonds were transferred to an account administered by the State of Colorado until needed for construction costs. This account is shown as “cash with fiscal agent” in the High School Capital Projects Fund. In addition to the Series 2012H Certification of Participation Bonds and the BEST program funds, the District will use \$1,890,000 of Series 2013 General Obligation Bonds to finance new athletic fields for the District. The Series 2012H Certificate of Participation Bonds were issued at an interest rate of 3.01%. The Series 2013 General Obligation Bonds carry interest at 2% to 3%. The repayment of the bonds is recorded in the Debt Service Fund.

The annual requirement to amortize the bonds outstanding are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Series 2012H</u>		<u>Series 2013</u>	
	<u>Certificates of Participation</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 786,559	\$ 502,948	\$ 80,000	\$ 44,600
2018	810,202	478,949	80,000	43,000
2019	834,556	454,229	80,000	41,400
2020	859,642	428,766	85,000	39,750
2021	885,482	402,538	85,000	38,050
2022-2026	5,900,700	1,712,654	565,000	163,800
2027-2031	5,784,812	721,828	555,000	68,700
2032	1,263,353	37,975	120,000	3,600
Total	\$ 17,125,306	\$ 4,739,887	\$ 1,650,000	\$ 442,900

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Changes in Long-Term Debt - A summary of changes in long-term debt follows:

	Long Term Debt <u>July 1, 2015</u>	<u>Issued</u>	<u>Retired</u>	Long Term Debt <u>June 30, 2016</u>
Long-Term Debt				
Series 2012H Certificate of Participation	\$ 17,888,912		\$ (763,606)	\$ 17,125,306
Series 2013 General Obligation Bonds	1,730,000		(80,000)	1,650,000
 Total Long-Term Debt	 <u>\$ 19,618,912</u>	 <u>\$ -</u>	 <u>\$ (843,606)</u>	 <u>\$ 18,775,306</u>

8. Fund Balance Restrictions and Assignments

Restricted indicates that a portion of the fund balance can only be spent for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors. Assigned indicates amounts that are designated for a specific purpose by the Board of Education but are not spendable until appropriated. The District uses the following restrictions and assignments:

Restricted

TABOR is required by an amendment to the State Constitution, Article X; Section 20, known as the Tabor Amendment, which requires local government units to establish emergency reserves. The designation is a minimum of three percent of the current fiscal year eligible expenditures. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. Fund balance reserved for emergencies consists of \$760,000 in the General Fund.

Capital Projects indicates the amount of fund balance that is restricted for the construction of a new high school pursuant to the issuance of the 2012 Certificate of Participation Bonds and the 2013 General Obligation Bonds. Fund balance restricted for capital construction consists of \$2,829,805 in the High School Building Fund.

Debt Service indicates the amount of fund balance that is restricted for the repayment of the District's outstanding bonds. Fund balance restricted for debt service consists of \$1,372,468 in the Bond Redemption Fund.

Committed represents 2009 property tax paid by Kinder Morgan in fiscal year 2016. Kinder Morgan has appealed the assessed values for these funds and has appealed to the state. The Montezuma County (Cortez) Board of Education, per resolution, committed these funds until the process is resolved in the courts.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

Assigned

Assigned for future expenditures - indicates anticipated fund balance available for appropriation in the next budget year. Fund balances assigned for future expenditures consist of the following:

General Fund	\$ 3,627,178
Food Service Fund	182,706
Governmental Designated-Purpose Grants Fund	7,005
Capital Projects Fund	870,926
 Totals	 <u><u>\$ 4,687,815</u></u>

9. Budgets and Budgetary Accounting

Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors throughout the year. Following is a summary of the revised budget, actual amount spent and variance.

	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Activities			
General Fund	\$ 19,780,117	\$ 18,556,363	\$ 1,223,754
Food Service Fund	1,222,463	1,118,152	104,311
Governmental Designated Purpose Grants Fund	2,991,258	2,777,481	213,777
Bond Redemption Fund	1,442,602	1,416,052	26,550
High School Building Fund	10,985,363	8,155,646	2,829,717
Capital Projects Fund	1,290,870	390,098	900,772
Business-Type Activities			
Internal Service Fund Self Insurance Fund	3,033,016	2,193,122	839,894
Fiduciary Fund			
Student Trust Agency Fund	987,863	614,861	373,002

Appropriations are adopted by resolution for each fund in total and lapse at the end of each year. Over-expenditures are not deemed to exist unless the fund as a total has expenditures in excess of appropriations.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

10. *Jointly Governed Organization*

The District is a participant among nine school districts in a jointly governed organization to operate the San Juan Board of Cooperative Educational Services (BOCES). The BOCES is a regional education service unit created under the "Board of Cooperative Services Act of 1965" of the Colorado Revised Statutes. The BOCES provides unique education services that the member districts could not provide individually on a cost-effective basis. The BOCES governing board is made up of representatives from each member district's board. The governing board control budgeting and fiscal matters. The District does not have an ongoing financial interest in or ongoing financial responsibility for the BOCES. Financial statements for the BOCES can be obtained by contacting the Director of Business Services at (970)247-3261. The District had no debt with BOCES at year end.

11. *Defined Benefit Pension Plan*

Plan Description – Eligible employees of the District are provided with pensions through the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67 and is administered by the Public Employees' Retirement Association of Colorado (PERA). PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided – 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.

The SCHDTF serves as a defined benefit retirement plan where retirees receive a predictable monthly benefit for their lifetime, and generally, an increase each year, as eligible. 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. Title 24-51-602, 604, 1713, and 1714.

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

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

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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) as established by State Statutes. Benefit recipients who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless the plan has a negative investment year, in which case the annual increase for the next three years is the lessor of 2 percent or the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients who began eligible employment after January 1, 2007 receive an annual increase of the lessor 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 and benefit formula shown above considering a minimum 20 years of service credit.

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

Contributions – Eligible employees and the District are required to contribute to the SCHDTF at a rates established by Title 24, Article 51, Part 4 of the C.R.S.. These contributions requirements are established and may be amended by the State Legislature. Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized the following table:

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
	<hr/>	<hr/>
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund (HCTF) as specified in C.R.S. § 24-51-208(1)(f) ¹	-1.02%	-1.02%
Amount Apportioned to the SCHDTF ¹	<hr/> 9.13%	<hr/> 9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	<hr/> <hr/> 17.33%	<hr/> <hr/> 18.13%

¹Rates 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 which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SDHDTF from the District were \$2,123,837 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 District reported a liability of \$43,009,778 for its proportionate share of the net position 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. SCHDTF included the Southwest Open School and the Battle Rock Charter School in the Montezuma County (Cortez) School District's ("District") proportion. The District's proportion of the net pension liability was based on a percentage of the Montezuma County (Cortez) School District RE-1's ("District") 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 District's proportion was .3001754036 percent, which was decrease of .0087491538 percent from its proportion measured as of December 31, 2014. The District's contributions were 93.383% (.2812145367 percent) of the total contributions.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$2,978,108. As June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 567,949	\$ 1,791
Change in assumptions		607,803
Net difference between projected and actual earnings on pension plan investments	3,657,038	
Changes in proportion and differences between contributions recognized and proportionate share of contributions		1,150,618
Contributions subsequent to the measurement date	1,119,909	
	<u>\$ 5,344,896</u>	<u>\$ 1,760,212</u>

\$1,119,909 reported as deferred outflows or resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ 452,057
2018	507,131
2019	755,666
2020	749,921
Total	<u>\$ 2,464,775</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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 investments expense, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07 and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

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 governing 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:

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

	<u>Target</u>	10 Year Expected
	<u>Allocation</u>	<u>Geometric Real</u>
		<u>Rate of Return</u>
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	<u>100.00%</u>	

*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 projections of cash flows to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those 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 District's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

	1 % Decrease (6.50%)	Current Discount Rate (7.50%)	1 % Increase (8.50%)
Proportionate share of the net pension liability	\$ 43,439,876	\$ 43,009,778	\$ 42,579,680

Pension plan fiduciary net position. Detail information of 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.

12. Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The District contributed 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 program (known as PERACare) to PERA participating benefits recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, established 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 and a publicly available comprehensive annual financial report that included financial statements and required supplemental information for the HCTF. That report can be obtained as www.copera.org/investments/pera-financial-reports.

Funding Policy – The District 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 requirement for the District 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, 2014, 2015 and 2016, the District’s employer contributions to the HCTF were \$122,919, \$124,104, and \$125,341, respectively, equal to their required contribution for each year.

13. Defined Contribution Pension Plan

Voluntary Investment Program

Plan Description – Employees of the District 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.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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. The District has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2016, program members contributed \$185,659 to the Voluntary Investment Program.

14. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Colorado School Districts Self-Insurance Pool (The Pool). The Pool was formed in 1981 to provide 93 member school districts and related educational facilities with defined property and liability coverage through joint self-insurance and excess insurance. The District pays an annual premium for its general insurance coverage. The Pool is self-sustaining through member premiums and obtains excess insurance to limit per occurrence exposure to \$250,000.

The District continues to carry commercial insurance for all other risks of loss including worker's compensation and employee health and accident insurance. There have been no settled claims that have exceeded insurance coverage in any of the past three fiscal years. There have been no significant decreases in insurance coverage from the prior year.

In addition, the District has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of \$110,000, with a maximum aggregate benefit of \$1,000,000.

The plan received premiums of \$3,160,574 and paid claims of \$2,143,857 for the fiscal year. \$2,943,312 of the premiums charged were paid by the District as employee benefits.

15. Tax, Spending, and Debt Limitations

Colorado Voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The people of the District voted to authorize the spending of all monies in existing funds and to collect, retain, and expend the full revenue, including state grants and taxes, generated during fiscal year 1998 and for each subsequent year regardless of any limitation contained in Article X, Section 20, of the Colorado Constitution. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with all other requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

16. *Commitments and Contingent Liabilities*

The District had received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. District management believes that disallowance, if any, would be immaterial to the basic financial statements.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Required Supplementary Information

June 30, 2016

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

Such information includes:

Budgetary Comparison Schedules

 General Fund

 Food Service Fund

 Governmental Designated-Purpose Grants Fund

Schedule of the District's Pension Contributions

Schedule of the District's Proportionate Share of the Net Pension Liability

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Local sources				
Taxes	\$ 12,901,928	\$ 14,781,916	\$ 14,949,693	\$ 167,777
Other	282,106	436,754	608,362	171,608
Intermediate sources	319,736	322,236	302,951	(19,285)
State sources				
State Equalization	6,070,359	5,165,897	5,208,694	42,797
Per pupil charter school allocation	(2,056,443)	(1,974,317)	(1,958,339)	15,978
Grants	688,641	649,363	602,786	(46,577)
Federal sources				
Grants	616,175	616,175	561,078	(55,097)
Total Revenues	18,822,502	19,998,024	20,275,225	277,201
Expenditures				
Instructional Program	11,907,394	11,933,528	11,331,299	602,229
Support Programs				
Students	909,827	870,115	822,378	47,737
Instructional staff	1,075,604	1,079,343	914,562	164,781
General administration	410,327	424,707	360,930	63,777
School administration	1,296,606	1,297,767	1,322,200	(24,433)
Business	332,069	343,320	336,919	6,401
Plant operation and maintenance	2,287,281	2,281,163	2,058,942	222,221
Student transportation	1,061,193	1,109,722	1,003,239	106,483
Central support services	412,435	403,662	359,196	44,466
Other support services	33,790	26,790	46,698	(19,908)
Facilities acquisition		10,000		10,000
Total Expenditures	19,726,526	19,780,117	18,556,363	1,223,754
Excess revenues over (under) expenditures	(904,024)	217,907	1,718,862	1,500,955
Net Change in Fund Balances	(904,024)	217,907	1,718,862	1,500,955
Fund Balances beginning of the year	904,024	3,919,610	3,919,610	-
Fund Balances end of the year	\$ -	\$ 4,137,517	\$ 5,638,472	\$ 1,500,955

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual
Special Revenue Fund
Food Service Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		(Non GAAP Basis) Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Food sales	\$ 235,000	\$ 235,000	\$ 203,056	\$ (31,944)
Other	200	200	179	(21)
State sources				
Grants	16,017	16,017	19,341	3,324
Federal sources				
Grants	930,005	930,005	809,572	(120,433)
Total local sources	<u>1,181,222</u>	<u>1,181,222</u>	<u>1,032,148</u>	<u>(149,074)</u>
Expenditures				
Support programs				
Food service operations				
Salaries	363,310	363,310	341,237	22,073
Employee benefits	258,548	258,548	243,914	14,634
Purchased services				
Property	9,500	9,500	16,663	(7,163)
Other	1,300	1,300	620	680
Food and supplies	561,805	561,805	496,714	65,091
Property	5,500	5,500	3,386	2,114
Other	22,500	22,500	15,618	6,882
Total Expenditures	<u>1,222,463</u>	<u>1,222,463</u>	<u>1,118,152</u>	<u>104,311</u>
Excess revenue over (under) expenditures	<u>(41,241)</u>	<u>(41,241)</u>	<u>(86,004)</u>	<u>(44,763)</u>
Net change in fund balance	(41,241)	(41,241)	(86,004)	(44,763)
Fund balance beginning of the year	200,118	268,710	268,710	-
Fund balance end of the year	<u>\$ 158,877</u>	<u>\$ 227,469</u>	<u>\$ 182,706</u>	<u>\$ (44,763)</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Governmental Designated-Purpose Grants Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 266,726	\$ 232,293	\$ 236,390	\$ 4,097
State sources				
Grants	698,296	754,511	672,373	(82,138)
Federal sources				
Grants	1,905,858	1,993,167	1,864,436	(128,731)
Total Revenues	<u>2,870,880</u>	<u>2,979,971</u>	<u>2,773,199</u>	<u>(206,772)</u>
Expenditures				
Instructional Program	1,055,512	1,045,027	978,264	66,763
Support Programs				
Students	665,581	559,267	515,168	44,099
Instructional staff	1,011,932	1,272,700	1,174,787	97,913
School administration	69,668	44,114	19,165	24,949
Business	49,453	52,963	50,984	1,979
Student transportation	18,734	17,187	15,978	1,209
Other support services			14,953	(14,953)
Facilities acquisition			8,182	(8,182)
Total Expenditures	<u>2,870,880</u>	<u>2,991,258</u>	<u>2,777,481</u>	<u>213,777</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>(11,287)</u>	<u>(4,282)</u>	<u>7,005</u>
Net Change in Fund Balances	-	(11,287)	(4,282)	7,005
Fund Balances beginning of the year		11,287	11,287	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,005</u>	<u>\$ 7,005</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
 Schedule of Pension Contributions

June 30, 2016
 Last 10 Years*

	2016	2015
Statutorily required contributions	\$ 2,178,998	\$ 2,052,694
Contributions in relation to the statutory required contribution	2,178,998	2,052,694
Contribution deficiency (excess)	\$ -	\$ -
School's covered employee payroll	\$ 12,288,408	\$ 12,157,244
Contributions as a percentage of covered employee payroll	17.73%	16.88%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of the School's Proportionate Share of the Net Pension Liability

June 30, 2016
Last 10 Years*

	<u>12/31/2015</u>	<u>12/31/2014</u>
Proportionate Share of the Net Pension Liability		
Montezuma County (Cortez) School District RE-1	0.30017540%	0.31106862%
District's proportionate share of the Net Pension Liability	0.28121454%	0.28997445%
School's proportionate share of the Net Pension Liability	\$ 43,009,778	\$ 39,301,278
School's covered employee payroll	\$ 12,251,192	\$ 12,141,293
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	351.07%	323.70%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	64.07%

SCHDTF included the Battlerock Charter School and the Southwest Open School in the Montezuma County (Cortez) School District's proportion.

The Montezuma County (Cortez) School District's contributions were 93.683% of the total contributions.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Other Supplementary Information

June 30, 2016

Other supplementary information includes financial statements and schedules not required by the GASB, or a part of the basic financial statements, but are presented for purposes of additional analysis.

These statements and schedules include:

Budgetary Comparison Schedules

Debt Service Fund

Bond Redemption Fund

Capital Projects Fund

High School Building Fund

Capital Projects Fund

Proprietary Fund

Self Insurance Fund

Fiduciary Fund

Agency Fund

Pupil Activity Fund

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Schedule of Revenues, Expenditures and Changes in
Fund Balances- Budget and Actual
Bond Redemption Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Local sources				
Current property tax	\$ 1,472,503	\$ 1,472,503	\$ 1,466,969	\$ (5,534)
Earnings on investments			2,690	2,690
Other Tax			2,326	2,326
Total local sources	<u>1,472,503</u>	<u>1,472,503</u>	<u>1,471,985</u>	<u>(518)</u>
Total revenues	<u>1,472,503</u>	<u>1,472,503</u>	<u>1,471,985</u>	<u>(518)</u>
Expenditures				
Debt Service				
Interest	613,996	613,996	572,446	41,550
Principal	828,606	828,606	843,606	(15,000)
Total expenditures	<u>1,442,602</u>	<u>1,442,602</u>	<u>1,416,052</u>	<u>26,550</u>
Excess revenue over (under) expenditures	<u>29,901</u>	<u>29,901</u>	<u>55,933</u>	<u>26,032</u>
Net change in fund balance	29,901	29,901	55,933	26,032
Fund balance beginning of the year		1,316,535	1,316,535	-
Fund balance end of the year	<u>\$ 29,901</u>	<u>\$ 1,346,436</u>	<u>\$ 1,372,468</u>	<u>\$ 26,032</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
High School
Capital Projects Fund

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Local sources				
Earnings on investments	\$ 1,800	\$ 1,800	\$ 1,888	\$ 88
Total local sources	<u>1,800</u>	<u>1,800</u>	<u>1,888</u>	<u>88</u>
Total Revenues	<u>1,800</u>	<u>1,800</u>	<u>1,888</u>	<u>88</u>
Expenditures				
Support Programs				
Facilities acquisition	10,676,444	10,985,363	8,155,646	2,829,717
Total Support Programs	<u>10,676,444</u>	<u>10,985,363</u>	<u>8,155,646</u>	<u>2,829,717</u>
Total Expenditures	<u>10,676,444</u>	<u>10,985,363</u>	<u>8,155,646</u>	<u>2,829,717</u>
Excess revenues over (under) expenditures	<u>(10,674,644)</u>	<u>(10,983,563)</u>	<u>(8,153,758)</u>	<u>2,829,805</u>
Net Changes in Fund Balances	(10,674,644)	(10,983,563)	(8,153,758)	2,829,805
Fund Balances beginning of the year	10,930,138	10,983,563	10,983,563	-
Fund Balances end of the year	<u>\$ 255,494</u>	<u>\$ -</u>	<u>\$ 2,829,805</u>	<u>\$ 2,829,805</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Capital Projects Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Earnings on investments	\$ 500	\$ 500	\$ 879	\$ 379
Other local	275,000	238,400	212,487	(25,913)
Total local sources	<u>275,500</u>	<u>238,900</u>	<u>213,366</u>	<u>(25,534)</u>
State sources				
Capital construction grant	50,000	77,000	72,688	(4,312)
Total state sources	<u>50,000</u>	<u>77,000</u>	<u>72,688</u>	<u>(4,312)</u>
Total Revenues	<u>325,500</u>	<u>315,900</u>	<u>286,054</u>	<u>(29,846)</u>
Support Programs				
Business		6,000	51	5,949
Operation and maintenance of plant			5,561	(5,561)
Food Service		9,966	9,792	174
Facilities acquisition	750,500	1,274,904	374,694	900,210
Total Support Programs	<u>750,500</u>	<u>1,290,870</u>	<u>390,098</u>	<u>900,772</u>
Total Expenditures	<u>750,500</u>	<u>1,290,870</u>	<u>390,098</u>	<u>900,772</u>
Excess revenues over (under) expenditures	<u>(425,000)</u>	<u>(974,970)</u>	<u>(104,044)</u>	<u>870,926</u>
Net Changes in Fund Balances	(425,000)	(974,970)	(104,044)	870,926
Fund Balances beginning of the year	689,754	974,970	974,970	-
Fund Balances end of the year	<u>\$ 264,754</u>	<u>\$ -</u>	<u>\$ 870,926</u>	<u>\$ 870,926</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual
Proprietary Fund
Internal Service Fund
Self Insurance Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		(Non GAAP Basis)	Variance
	Original	Final	Actual	Favorable
			Amounts	(Unfavorable)
Operating Revenues				
Premium revenue	\$ 3,253,500	\$ 3,253,500	\$ 3,160,574	\$ (92,926)
Total local sources	<u>3,253,500</u>	<u>3,253,500</u>	<u>3,160,574</u>	<u>(92,926)</u>
Operating Expenses				
Central service				
Administration fees	190,000	190,000	49,265	140,735
Medial and Prescription Claims	2,843,016	2,843,016	2,143,857	699,159
Total operating expenses	<u>3,033,016</u>	<u>3,033,016</u>	<u>2,193,122</u>	<u>839,894</u>
Operating income (loss)	220,484	220,484	967,452	746,968
Non-Operating Revenue				
Local sources				
Earnings on investments	25	25	1,734	1,709
Change in net position non GAAP basis	<u>220,509</u>	<u>220,509</u>	<u>969,186</u>	<u>748,677</u>
Net position beginning of the year	147,596	509,137	509,137	-
Net position end of the year	<u>\$ 368,105</u>	<u>\$ 729,646</u>	<u>\$ 1,478,323</u>	<u>\$ 748,677</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Schedule of Revenues, Expenditures, and Changes in Due to Agency Recipients - Budget and Actual
Fiduciary Fund
Agency Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Other	\$ 650,000	\$ 750,000	\$ 647,708	\$ (102,292)
Total local sources	650,000	750,000	647,708	(102,292)
Total Revenues	650,000	750,000	647,708	(102,292)
Expenditures				
Other objects	650,000	987,863	614,861	373,002
Total Expenditures	650,000	987,863	614,861	373,002
Total Expenditures	650,000	987,863	614,861	373,002
Net Change in Fund Balances	-	(237,863)	32,847	270,710
Due to agency recipients beginning of the year	239,383	237,863	237,863	-
Due to agency recipients end of the year	\$ 239,383	\$ -	\$ 270,710	\$ 270,710

INFORMATION REQUIRED BY OVERSIGHT AUTHORITIES

Majors and Haley, P.C.
Certified Public Accountants

P.O. Box 1478
Cortez, CO 81321
(970) 565-9521
Fax: (970) 565-9441

Chris L. Majors, CPA, MT

Lori Hasty Haley, CPA

INDEPENDENT AUDITORS' 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
Montezuma County (Cortez) School District RE-1
Cortez, Colorado 81321

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montezuma County (Cortez) School District RE-1 as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Montezuma County (Cortez) School District RE-1's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montezuma County (Cortez) School District RE-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 Montezuma County (Cortez) School District RE-1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montezuma County (Cortez) School District RE-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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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 charges 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 Montezuma County (Cortez) School District RE-1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 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 controls 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.

Majors and Haley PC

Majors and Haley, P.C.
November 21, 2016

Majors and Haley, P.C.
Certified Public Accountants

P.O. Box 1478
Cortez, CO 81321
(970) 565-9521
Fax: (970) 565-9441

Chris L. Majors, CPA, MT

Lori Hasty Haley, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Montezuma County (Cortez) School District RE-1
Cortez, Colorado 81321

Report on Compliance for Each Major Federal Program

We have audited the Montezuma County (Cortez) School District RE-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 Montezuma County (Cortez) School District RE-1's major federal programs for the year ended June 30, 2016. The Montezuma County (Cortez) School District RE-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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Montezuma County (Cortez) School District RE-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 Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the 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 the Montezuma County (Cortez) School District RE-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 on the Montezuma County (Cortez) School District RE-1's compliance.

Opinion on Each Major Federal Program

In our opinion, the Montezuma County (Cortez) School District RE-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 the Montezuma County (Cortez) School District RE-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 the Montezuma County (Cortez) School District RE-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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Montezuma County (Cortez) School District RE-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 control 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 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 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 The Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Majors and Haley PC

Majors and Haley, P.C.
Cortez, Colorado
November 21, 2016

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-thru Number	Expenditures
U.S. Department of Agriculture			
Passed through the Colorado Department of Education			
School Breakfast Program	10.553	4553	\$ 137,343
National School Lunch Program	10.555	4555	593,599
Special Milk Program for Children	10.556	4556	2,865
 Total			<hr/> 733,807
 Pass through the Colorado Department of Human Services			
Food Commodities	10.555	4555	<hr/> 75,765
 Total			<hr/> 809,572
 U.S. Department of Education			
Direct program			
Impact Aid - P.L. 81-874	84.041	4041	606,491
Title VII - Indian Education	84.060	4060	151,850
 Total			<hr/> 758,341
 Passed through the Colorado Department of Education			
Title I Grants to Local Educational Agencies	84.010	4010	838,224
Title I Grants to Local Educational Agencies	84.010	5010	92,963
Charter Schools	84.282	5282	189,000
Twenty-First Century Community Learning Centers	84.287	5287	126,286
Rural Education Title VI Part B	84.358	7358	46,487
High School Graduation Initiative	84.360	5360	51,091
Early Childhood Readiness	84.412	5412	2,223
Title III English Language Learners	84.365	4365	11,133
Improving Teacher Quality State Grants Title II Part A	84.367	4367	211,884
 Total			<hr/> 1,569,291
 Passed through the Colorado Community College System			
Career and Technical Education Perkins IV	84.048	4048	<hr/> 36,692
 Total			<hr/> 2,364,324
 Total Expenditures of Federal Awards			<hr/> \$ 3,173,896 <hr/>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards present the activity of all federal award programs expended by Montezuma County (Cortez) School District RE-1 for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* 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 basic financial statements.

FOOD DISTRIBUTION

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

SUBRECIPIENTS

Montezuma County (Cortez) School District RE-1 had no sub-recipients of federal funds for the year ended June 30, 2016.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2016

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the (general purpose) financial statements of Montezuma Cortez School District RE-1.
2. No instances of noncompliance material to the (general purpose) financial statements of Montezuma Cortez School District RE-1 were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for Montezuma Cortez School District RE-1 expressed an unqualified opinion on all major programs.
4. No instances of audit findings relating to major programs were disclosed during the audit.
5. The programs tested as major programs included:
 Title I Grants to Local Educational Agencies CFDA Number 84.010
6. The threshold for distinguishing Types A and B programs was \$750,000.
7. Montezuma Cortez School District RE-1 was determined to be a low-risk auditee.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

There were no findings or questioned costs relative to federal awards in the prior year.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2016

There were no audit findings to be included in the current audit report; therefore, a corrective action plan is not necessary.



Colorado Department of Education
Auditors Integrity Report
 District: 2035 - MONTEZUMA-CORTEZ RE-1
 Fiscal Year 2015-16
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
	+		-	=
Governmental				
10 General Fund	3,774,975	19,518,439	17,768,391	5,525,024
18 Risk Mgmt Sub-Fund of General Fund	67,695	148,000	157,973	57,722
19 Colorado Preschool Program Fund	76,940	626,780	647,993	55,726
Sub- Total	3,919,610	20,293,219	18,574,357	5,638,472
11 Charter School Fund	768,312	2,403,406	2,335,783	835,935
20,26-29 Special Revenue Fund	0	0	0	0
21 Food Service Spec Revenue Fund	268,710	1,032,148	1,118,153	182,706
22 Govt Designated-Purpose Grants Fund	11,289	3,219,612	3,223,896	7,005
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	1,316,535	1,471,985	1,416,052	1,372,468
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	10,983,563	1,888	8,155,646	2,829,805
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,431,722	326,505	441,417	1,316,811
Totals	18,699,742	28,748,763	35,265,303	12,183,202
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	509,137	6,348	-962,838	1,478,323
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	509,137	6,348	-962,838	1,478,323
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	237,863	652,543	615,918	274,487
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	237,863	652,543	615,918	274,487

FINAL

*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.