

Montrose County School District No. RE-1J

FINANCIAL STATEMENTS AND REPORTS OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016



**RECEIVED**

*By Justin L. Smith at 11:57 am, Jan 04, 2017*

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## INDEPENDENT AUDITOR'S REPORT

November 5, 2016

To the Board of Education  
Montrose County School District RE-1J

**Report on the Financial Statements**

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Passage Charter School, which represent 2.7 percent, (2.7) percent, and 18.2 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 discretely presented component unit, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montrose County School District RE-1J, 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.



Board of Education  
November 5, 2016

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of activity—pension liability and contribution schedules on pages i-ix, 46-47, and 48-49, respectively, 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 the 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 District's basic financial statements. The Colorado Automated Data Exchange Report and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Colorado Automated Data Exchange Report, the schedule of expenditures of federal awards, and the other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the Colorado Automated Data Exchange Report, the schedule of expenditures of federal awards, and the other supplementary information as listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montrose County School District RE-1J's internal control over financial reporting and compliance.

*Chadwick, Steinkirchner, Davis & Co., P.C.*

# **MONTROSE COUNTY SCHOOL DISTRICT RE-1J MONTROSE AND OLATHE, COLORADO**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As of and for the fiscal year ended June 30, 2016

As management of the Montrose County School District RE-1J, Montrose and Olathe, Colorado (the District), we offer readers of the District's Annual Financial Report this narrative and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the basic financial statements.

### **Financial Highlights**

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$47.8 million (net position). This significant negative change was caused by the implementation of a change in accounting principle required by GASB 68 that required the District to show its proportionate share of PERA's net pension liability in the government wide financial statements.
- Governmental activities have unrestricted net position of (\$78) million. Again, the negative net position was created as a result of implementation of GASB 68 to show net pension liability.
- Fund balance of the District's governmental funds decreased by \$2.2 million, resulting in an ending fund balance of \$14.2 million. This negative change resulted from the payment of the long-term QZAB loan in the amount of \$3,474,600 which was paid in full on March 28, 2016.
- During the current fiscal year, the fund balance in the District's General Fund increased by \$478,045. This represents a \$416,075 increase in the Insurance Reserve which is a sub-fund of the General Fund and a \$61,970 increase in the General Fund. Through reprioritizing District programs and the related expenditures, the District has reversed three years of spending more than current year revenue.
- Not including the net pension liability, the District's long-term obligations decreased by \$3.6 million. The District's long-term obligations increased by \$974,813 as a result of entering into a capital lease to fund student computers throughout the District. Payments on existing debt and reductions in compensated absences payable and retirement benefits payable resulted in a decrease in long-term obligations of \$4.58 million.

### **Overview of the 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 presented on pages 3-45 are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial 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 and liabilities. The difference between assets and liabilities is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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 flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

Both of the government-wide financial statements distinguish functions of the District that are supported from taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or most of their costs from user fees and charges (business-type activities). Governmental activities consolidate governmental funds including the General Fund, Designated Purpose Grants Fund, Capital Projects Fund, and other non-major special revenue funds. Business-type activities include the Employee Medical Benefit Fund.

The government-wide financial statements can be found on pages 3-4 of this report.

## **Fund Financial Statements**

Fund financial statements are designed to demonstrate compliance with finance-related requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Montrose County School District RE-1J, like other governments, uses fund accounting to ensure and demonstrate compliance. The fund types presented here are governmental funds, proprietary funds and fiduciary fund.

### **Governmental Funds**

Governmental funds account for essentially the same information reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Montrose County School District RE-1J maintains nine different governmental funds. The major funds are the General Fund, the Designated Purpose Grants Fund, and the Capital Projects Fund. They are presented separately in the fund financial statements. The remaining governmental funds, called non-major funds, are combined into a single aggregated presentation labeled other governmental funds. Non-major funds include the District's Nutritional Service Fund, the Student Activity Fund, the Fee in Lieu Fund, the Bond Fund, and the Building Fund. Individual fund information for the non-major funds is presented as other supplemental information.

The District adopts an annual appropriated budget for each of the governmental funds. Budgetary comparison schedules for the General Fund, and the Designated Purpose Grants Fund are included on pages 46-47 as required supplemental information in the financial statements to demonstrate compliance with the adopted budget. The Capital Projects Fund and the remaining governmental funds budgetary comparisons are reported as other supplemental information on pages 57-63. Non-governmental fund budgetary comparisons are reported on pages 64-65.

The basic governmental fund financial statements can be found on pages 5-8 of this report.

### **Proprietary Funds**

The District maintains one proprietary fund, which is an internal service fund. Internal service funds are used to accumulate and allocate costs internally amount the District's various functions. The District uses an internal service fund type to account for the Employee Medical Benefit activities related to the District's employees' medical insurance needs.

The basic proprietary fund financial statements are presented on pages 9-11 of this report.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because these sources of those funds are not available to support the District's direct educational programs. The accounting method used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements are presented on pages 12-13 of this report.

## **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 14-45 of this report.

## Required Supplemental and Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required and other supplement information concerning the District's non-major governmental funds and schedules required as part of the Colorado Public School Finance Act. Combining and individual fund statements and schedules can be found on pages 46-65 of this report. The additional schedules required as part of the Colorado Public School Finance Act can be found on pages 75-76 of this report.

### Government-wide Financial Analysis

#### Government-wide Net Position

The assets of the District are classified as current assets and capital assets. Cash, investments, receivables, inventories and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the District. Current assets reflect the result of the property tax collection process since the District receives 50% of the annual property tax assessment in April, May and June.

Capital assets are used in the operations of the District. These assets are land, improvements, buildings, equipment, and vehicles. Capital assets are discussed in greater detail in the section titled, Capital Assets and Debt Administration, elsewhere in this analysis.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, unearned revenues, and current debt obligations. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets or new resources that become available during fiscal year 2016-2017. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after fiscal 2016-2017.

The liabilities and deferred inflows of the primary government activities exceed assets and deferred outflows by \$47.8 million with an unrestricted balance of (\$78 million). Total net position of the primary government does not include internal balances. The negative net position has been caused by the requirement to reflect the District's proportional share of PERA's net pension liability (\$101.4 million) on the District's financial statements.

A net investment of \$28 million in land, improvements, buildings, equipment, and vehicles that provide the services to the District's 6,160 public school students. Net position of \$834,204 accumulated due to voter approved bonded debt mill levy assessments have been restricted to provide resources to liquidate the current general obligation bond principal, and related interest payments. The legally required TABOR reserve has also been restricted.

#### *Comparative Summary of Net Position* June 30, 2016 and 2015

	Governmental Activities		
	2016	2015	
<b>Assets:</b>			
Current assets	\$ 24,422,995	\$ 25,473,343	
Capital assets	36,857,746	37,079,549	
Total Assets	61,280,741	62,552,892	
<b>Deferred Outflows:</b>			
Loss on refunding	339,929	404,677	
Deferred pension outflows	12,963,843	5,316,304	
Total Deferred Outflows	13,303,772	5,720,981	
Total Assets and Deferred Outflows	\$ 74,584,513	\$ 68,273,873	
<b>Liabilities:</b>			
Current liabilities	\$ 7,506,889	\$ 7,031,219	
Noncurrent liabilities	111,917,176	106,085,292	
Total Liabilities	119,424,065	113,116,511	
<b>Deferred Inflows:</b>			
Deferred pension inflow	2,962,923	6,868	
<b>Net Position:</b>			
Net investment in capital assets	27,938,292	25,229,699	
Restricted	2,214,557	5,357,275	
Unrestricted	(77,955,324)	(75,436,480)	
Total Net Position	(47,802,475)	(44,849,506)	
Total Liabilities, Deferred Inflows and Net Position	\$ 74,584,513	\$ 68,273,873	

*Comparative Schedule of Changes in Net Position*  
 Years ended June 30, 2016 and 2015

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for services	\$ 8,683,390	\$ 8,882,863
Operating grants and contributions	9,391,505	9,238,738
Capital grants and contributions	90,920	121,953
General revenues;		
Property taxes	11,375,863	10,812,926
Specific ownership taxes	1,391,292	1,338,468
State equalization	30,571,618	29,661,036
Unrestricted investment earnings	155,855	153,858
Allocation to Charter Schools	(1,170,393)	(1,222,600)
Miscellaneous	47,186	195,062
Total Revenues	60,537,236	59,182,304
<b>Expenses:</b>		
Governmental activities:		
Instruction	39,037,011	37,663,056
Supporting services:		
Students	4,043,646	3,537,999
Instruction	3,089,147	4,249,916
General administration	859,001	1,613,992
School administration	3,372,849	3,249,375
Business	827,952	842,345
Plant operation and maintenance	5,458,662	4,907,588
Student transportation	1,726,927	1,703,463
Central Services	912,637	690,706
Nutritional Services	1,769,651	1,980,626
Other	192,922	115,359
Community services	144,153	502,317
Student activities	1,796,245	1,639,538
Interest on long-term debt	259,402	280,760
Total Expenses	63,490,205	62,977,040
Change in Net Position	(2,952,969)	(3,794,736)
Net Position - July 1	(44,849,506)	(41,054,770)
Net Position - June 30	\$ (47,802,475)	\$ (44,849,506)

Key elements of the decrease in net position for governmental activities are as follows:

- State equalization aid increased by \$910,582 (3 percent) during the fiscal year, with property taxes increasing by \$562,937 (5.2 percent) during the year. The Colorado Public School Finance Act provides for the majority of the funding of local school districts based on a funded pupil count formula and a standardized maximum statewide property tax mill levy. The state equalization formula includes the local property and specific ownership tax. The combined equalization, specific ownership and property taxes increased by \$1,526,343 (3.6 percent). A five-year trend of declining enrollment was reversed in 2015-2016, which showed an increase of 42.7 funded student full time equivalent (FTE). While the District is showing student growth, the student FTE is still below the benefit allowed by the state for student count averaging for District's that have/had declining enrollment. The averaging of student count contributed to a larger increase in total per pupil revenue than had the averaging not been allowed. Of the increase in total per pupil revenue, \$308,575 was due to student count growth. The increase in the property taxes was due to an increase in property values.
- In November 2000, the voters of Colorado passed a statewide ballot issue to amend the State Constitution, Amendment 23. This amendment required that the state fund public education at a minimum of growth plus inflation plus one percent for the next ten years beginning with fiscal year 2001-2002 and thereafter at growth plus inflation. However, the State has been financially unable to fund to this required amount. Therefore, the State has implemented a Negative Factor to reflect this inability to fund the equalization amount. The negative factor reduced the District's equalization revenue by \$5.7 million in fiscal year 2015-2016.
- Operating grants for governmental activities increased by \$152,767 due to the increase in availability of private, state and federal grants.
- Capital grants and contributions for governmental activities decreased by \$31,033. This decrease is due to the completion of two private grant funded capital projects in 2014-2015. These grants were one-time donations.
- Total governmental activities expenses increased by \$519,510 or .81%. The District's expenses for the instruction and student support services increased by \$718,833 or 1.6 percent for this fiscal year.

### **Financial Analysis of the Government's Funds**

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

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

The combined general fund is the major governmental fund of Montrose County School District RE-1J and is the core of operations for the District. The combined general fund under GASB 34 reporting requirements includes the general operating fund and the insurance reserve fund. As of June 30, 2016, the combined general fund shows an ending fund balance of \$8,001,594, an increase of \$478,045 from the fund balance of \$7,523,549 for the prior year. The General Fund increased by \$61,970 and the Insurance Reserve fund increased by \$416,075.

In recap, as of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$14.2 million, a decrease of \$2.2 million in comparison with the prior year. \$478,045 is the result of increased revenues for combined general fund; \$245,460 is the result of increasing reserves in the Capital Projects Fund; (\$96,867) is the result of decreasing reserves in the Nutritional Services Fund due to increased costs; \$26,040 is the result of increasing reserves in the Student Activity fund; \$47,061 is the result of increased revenues in the Fee in Lieu Fund; \$15,436 is the result of increasing reserves in the Bond Redemption Fund; (\$3,121,995) is the result of the payoff of the QZAB loan; and \$200,011 is the result of increasing reserves in the Building Fund, mostly due to the annual \$200,000 transfer from General Fund.

The unassigned fund balance for the District at the end of the fiscal year consists of the unassigned balance for the General Fund of \$4.86 million. The School Board took formal action in 2012 to create an emergency reserve of \$3 million (see Note 4(K), which is a part of the \$4.86 million unassigned balance. The remainder of the fund balance is either in nonspendable form (i.e. inventories), restricted, or assigned to indicate that it is not available for new spending. Fund balance is restricted 1) to pay debt service (\$834,204), and 2) restricted for TABOR amendment (\$1.38 million). Fund Balance is committed 1) funds raised for the food nutritional program (\$317,699); 2) funds raised for student activities/athletics (\$955,002); 3) to pay for capital projects (\$3.8million); 4) to liquidate employee retirement benefits (\$268,224). Fund balance is assigned 1) to pay for

the school based health center (\$263,064); 2) reserved for insurance in the Insurance Fund which is a sub-fund of the General Fund (\$873,059); and 3) for prior-year budget carryovers (\$236,900).

### General Fund Budgetary Highlights

Montrose County School District RE-1J began budget development for the 2015-2016 fiscal year in December 2014 with discussions related to labor negotiations as well as the impact of Amendment 23.

A 2014-2015 mid-year analysis was completed in February 2015 established the base of expenditure assumptions for 2015-2016. After reviewing enrollment projections and the most current revenue assumptions, the Superintendent and his senior staff prepared a preliminary budget plan by prioritizing the needs of the District. The Proposed Budget was informally presented to the Board of Education on May 31 and formally presented and adopted at the June 9, 2015 Board meeting.

The final phase of budget development was the review for possible modification of the June budget based on revenue adjustments due to the October count for pupil enrollment. This revised budget normally is submitted and approved by the Board at the January meeting. It was determined that an amended budget was required at that time. Further changes in requirements and spending during the fiscal year caused a need to further adjust the budget at the June 28 Board meeting.

The District’s budget development process is consistent with current Colorado statutes that require a proposed budget be presented to Boards of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through January 31 of each fiscal year.

### Capital Assets and Debt Administration

Capital Assets. The District’s investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to \$36,857,746 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, equipment and vehicles, and projects in progress. The total decrease in the District’s investment in capital assets for the current fiscal year was \$221,803, or a 0.6% decrease for governmental activities.

Major capital asset events during the current fiscal year included the following:

- Upgrades to heating, ventilation, air conditioning and electrical services at Montrose High School.
- Additions to wireless access points and student computers throughout the district. Computers were financed through a Lease Purchase with Apple, Inc.
- Skills USA equipment was financed through a grant. School wrestling mat was financed through Activity Funds.

Montrose County School District RE-1J  
Capital Assets (net of accumulated depreciation)  
June 30, 2016 and 2015

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
Land	\$ 1,538,075	\$ 1,538,075
Construction in Progress	123,911	53,406
Improvements	3,539,377	3,586,739
Buildings	29,757,752	30,906,774
Equipment	1,898,631	994,555
Total Capital Assets	\$ 36,857,746	\$ 37,079,549

Additional information on the District’s capital assets can be found in Note F on pages 28-29.

Long-term Debt. At June 30, 2016, the District had total bonded debt outstanding of \$5,177,674, backed by the full faith and credit of the District. The District has debt outstanding for capital lease agreements in the amount of \$3,741,779. The District paid off the Qualified Zone Academy Bonds in the amount of \$3,474,600. Additionally, the District has compensated absences payable for \$1,453,561, and retirement bonus benefits payable of \$134,883.

**General obligation Bonds, QZAB, Employee Benefits, and Capital Leases**  
June 30, 2016 and 2015

<b>Governmental Activities</b>		
	<b>2016</b>	<b>2015</b>
General Obligation Bonds	\$ 5,177,674	\$ 5,826,664
Qualified Zone		
Academy Bonds	-	3,474,600
2012 Lease Purchase Agreement	2,766,966	2,953,263
2016 Apple Lease Agreement	974,813	
Compensated absences	1,453,561	1,637,011
Retirement Bonus benefits	134,883	224,448
<b>Total long-term obligations</b>	<b>\$ 10,507,897</b>	<b>\$ 14,115,986</b>

Additional information on the District’s long-term obligations can be found in Note G on pages 30-33 of this report.

**Economic Factors and Next Year’s Budget and Rates**

For 2016-2017, the inflation rate is 1.2 percent. The District budgeted for \$8,289 State per-pupil funding, which is an increase of 1.2 percent over the 2015-2016 funding. This increase will provide an additional \$81 per full time student to the District in fiscal year 2016-2017. However, the state established a Negative Factor in the amount of 11.5% of total program funding (\$5,941,900). This negative factor has been budgeted as a reduction in State revenue for the 2016-2017 fiscal year.

The District budgeted for flat enrollment growth; however, as these statements are being produced, it appears that the District may see a small enrollment increase.

The District is committed to an ongoing review of its programs and services for both effectiveness and efficiency. To accomplish this, the District examines how to best provide essential services on a cost-effective basis. In addition, the focus for the past year and the upcoming year is to re-direct resources towards the Board’s goal of increasing student achievement. In addition, due to the Federal and State of Colorado’s continuing financial stress, with projected shortfalls directly impacting the District’s financial resources, the District has

- Continued to evaluate all staff positions to facilitate cost savings while maintaining educational programs and increasing student achievement.
- Continued to actively seek out capital grants for District facilities.

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. The financial report for Passage Charter School, a component unit which has separately issued financial statements, can be obtained by contacting the school at (970) 249-8066. The financial report for Vista Charter School, a component unit which has separately issued financial statements, can be obtained by contacting the school at (970) 249-4470. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Karin Slater, Chief Financial Officer  
Montrose County School District RE-1J  
930 Colorado Avenue  
PO Box 10,000  
Montrose, Colorado 81402  
karin.slater@mcsd.org

Montrose County School District No. RE - 1J

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government	Component Units	
	Governmental Activities	Passage Charter School	Vista Charter School
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,309,375	\$ 110,412	\$ 339,785
Investments	4,575,205	-	1,694,064
Receivables			
Taxes	817,584	-	-
Accounts	290,793	-	-
Intergovernmental	2,022,155	-	-
Due from primary government	-	1,230	35,809
Inventories	272,208	-	-
Prepaid expenses	792	-	21,000
Restricted cash and investments	134,883	-	-
Capital assets			
Nondepreciable	1,661,986	-	595,320
Depreciable, net of accumulated depreciation	35,195,760	94,866	4,779,729
Total assets	61,280,741	206,508	7,465,707
<b>DEFERRED OUTFLOWS</b>			
Loss on refunding, current portion	64,749	-	-
Loss on refunding, long term portion	275,180	-	-
Deferred outflows related to pension	12,963,843	46,340	408,507
Total deferred outflows	13,303,772	46,340	408,507
<b>LIABILITIES</b>			
Accounts payable	445,504	205	7,318
Accrued salaries and benefits	5,138,077	8,611	122,659
Due to primary government	-	3,561	-
Due to component units	37,039	-	-
Claims payable	676,710	-	-
Accrued interest payable	28,560	-	-
Unearned revenue	1,180,999	19,852	95,280
Noncurrent liabilities			
Due within one year	1,371,369	-	-
General obligation bonds	4,508,685	-	-
Capital lease agreement	3,317,367	-	-
Compensated absences payable	1,237,837	-	-
Retirement benefits	72,639	-	-
Net pension liability	101,409,279	356,659	2,148,279
Total liabilities	119,424,065	388,888	2,373,536
<b>DEFERRED INFLOWS</b>			
Deferred inflows related to pension	2,962,923	2,147	30,440
Total deferred inflows	2,962,923	2,147	30,440
<b>NET POSITION</b>			
Net investment in capital assets	27,938,292	94,866	5,375,049
Restricted			
Emergencies	1,380,353	8,550	34,265
Debt service	834,204	-	-
Capital renewal	-	-	40,000
Unrestricted	(77,955,324)	(241,603)	20,924
Total net position	\$ (47,802,475)	\$ (138,187)	\$ 5,470,238

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

Montrose County School District No. RE - 1J

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Functions/Programs	Expenses	Program revenue			Net expenses (revenues) and changes in net position		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary government	Component units	
					Governmental Activities	Passage Charter School	Vista Charter School
Primary government:							
Governmental activities							
Instruction	\$ 39,037,011	\$ 6,533,680	\$ 4,385,378	\$ -	\$ (28,117,953)	\$ -	\$ -
Supporting services							
Students	4,043,646	107,307	2,269,446	-	(1,666,893)	-	-
Instruction	3,089,147	2,050	959,104	-	(2,127,993)	-	-
General administration	859,001	-	-	-	(859,001)	-	-
School administration	3,372,849	-	-	-	(3,372,849)	-	-
Business	827,952	-	-	-	(827,952)	-	-
Plant operations and maintenance	5,458,662	3,912	-	90,920	(5,363,830)	-	-
Student transportation	1,726,927	15,989	460,864	-	(1,250,074)	-	-
Central services	912,637	-	-	-	(912,637)	-	-
Nutritional services	1,769,651	236,418	1,216,733	-	(316,500)	-	-
Other	192,922	13,100	-	-	(179,822)	-	-
Community services	144,153	5,023	8,905	-	(130,225)	-	-
Student activities	1,796,245	1,765,911	91,075	-	60,741	-	-
Interest on long-term debt	259,402	-	-	-	(259,402)	-	-
Total governmental activities	<u>63,490,205</u>	<u>8,683,390</u>	<u>9,391,505</u>	<u>90,920</u>	<u>(45,324,390)</u>	-	-
Total primary government	<u>\$ 63,490,205</u>	<u>\$ 8,683,390</u>	<u>\$ 9,391,505</u>	<u>\$ 90,920</u>	<u>(45,324,390)</u>		
Component units							
Passage Charter School	\$ 306,455	\$ 59,105	\$ 98,480	\$ 3,877		(144,993)	
Vista Charter School	1,428,114	126,712	13,430	29,130			(1,258,842)
Total component units	<u>\$ 1,734,569</u>	<u>\$ 185,817</u>	<u>\$ 111,910</u>	<u>\$ 33,007</u>			
General Revenue							
Property taxes					11,375,863	-	-
Specific ownership taxes					1,391,292	-	-
State equalization					30,571,618	115,157	1,062,024
Unrestricted investment earnings					155,855	-	11,696
Allocations to charter schools					(1,170,393)	-	-
Miscellaneous					47,186	80	-
Total general revenues and allocations					<u>42,371,421</u>	<u>115,237</u>	<u>1,073,720</u>
Change in net position					(2,952,969)	(29,756)	(185,122)
Net position, beginning of year					(44,849,506)	(108,431)	5,655,360
Net position, end of year					<u>\$ (47,802,475)</u>	<u>\$ (138,187)</u>	<u>\$ 5,470,238</u>

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

Montrose County School District No. RE - 1J

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Designated Purpose Grants Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 8,332,730	\$ 12,326	\$ 2,200,373	\$ 2,987,428	\$ 13,532,857
Investments	3,283,760	29,850	46,676	649,506	4,009,792
Receivables					
Taxes	817,584	-	-	-	817,584
Accounts	4,352	-	-	286,414	290,766
Intergovernmental	576,764	1,445,391	-	-	2,022,155
Due from other funds	658,178	43,875	111,365	12,458	825,876
Inventories	123,829	-	-	148,379	272,208
Prepaid expenses	792	-	-	-	792
Restricted cash and investments					
Retirement benefits	134,883	-	-	-	134,883
<b>Total assets</b>	<b>\$ 13,932,872</b>	<b>\$ 1,531,442</b>	<b>\$ 2,358,414</b>	<b>\$ 4,084,185</b>	<b>\$ 21,906,913</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 314,105	\$ 92,342	\$ 18,666	\$ 12,125	\$ 437,238
Due to component units	37,039	-	-	-	37,039
Due to other funds	496,984	288,543	40,349	-	825,876
Accrued salaries and benefits	4,478,264	541,688	-	118,125	5,138,077
Unearned revenue	-	608,869	-	26,830	635,699
<b>Total liabilities</b>	<b>5,326,392</b>	<b>1,531,442</b>	<b>59,015</b>	<b>157,080</b>	<b>7,073,929</b>
<b>Deferred inflows of resources</b>					
Unavailable property tax revenues	184,886	-	-	12,843	197,729
Unavailable transportation revenues	420,000	-	-	-	420,000
<b>Total deferred inflows of resources</b>	<b>604,886</b>	<b>-</b>	<b>-</b>	<b>12,843</b>	<b>617,729</b>
<b>Fund balances</b>					
<b>Non-spendable</b>					
Inventories	123,829	-	-	148,379	272,208
Prepaid expenses	792	-	-	-	792
<b>Restricted</b>					
Emergency reserve - TABOR	1,380,353	-	-	-	1,380,353
Debt service	-	-	-	834,204	834,204
<b>Committed</b>					
Debt service	-	-	-	139,725	139,725
Nutritional service	-	-	-	317,670	317,670
Student activities	-	-	-	955,002	955,002
Capital projects	-	-	2,299,399	1,519,282	3,818,681
Retirement	268,224	-	-	-	268,224
<b>Assigned</b>					
School based health centers	263,064	-	-	-	263,064
Insurance	873,059	-	-	-	873,059
Prior year budget carryovers	236,900	-	-	-	236,900
Unassigned	4,855,373	-	-	-	4,855,373
<b>Total fund balances</b>	<b>8,001,594</b>	<b>-</b>	<b>2,299,399</b>	<b>3,914,262</b>	<b>14,215,255</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 13,932,872</b>	<b>\$ 1,531,442</b>	<b>\$ 2,358,414</b>	<b>\$ 4,084,185</b>	<b>\$ 21,906,913</b>

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

Montrose County School District No. RE - 1J

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total governmental funds balance		\$ 14,215,255
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of capital assets	\$ 76,370,405	
Less accumulated depreciation	<u>(39,512,659)</u>	36,857,746
Receivables that are not available soon enough to pay for the current year's expenditures are deferred in the funds.		617,729
Internal service funds are used by the District to account for the costs of employee medical benefit activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		2,111,682
Items related to pensions are considered to be long term items and are therefore not reported in the funds.		
Net pension liability	(101,409,279)	
Deferred outflows related to pension	12,963,843	
Deferred inflows related to pension	<u>(2,962,923)</u>	(91,408,359)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund.		
Long term liabilities at year-end consist of:		
General obligation bonds	(4,750,000)	
Premium on general obligation bonds	(427,674)	
Capital lease agreements	(3,741,779)	
Compensated absences	(1,453,561)	
Retirement benefits payable	<u>(134,883)</u>	(10,507,897)
Losses on refunding are reported in the fund when first issued, but deferred and amortized in government-wide.		339,929
Accrued interest payable is recognized in the government-wide statements, but is not due and payable within the current period and therefore is not reported in the funds.		<u>(28,560)</u>
Net position of governmental activities		<u><u>\$ (47,802,475)</u></u>

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

Montrose County School District No. RE - 1J

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2016

	General Fund	Designated Purpose Grants Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local sources	\$ 12,230,235	\$ 318,529	\$ 12,799	\$ 2,912,419	\$ 15,473,982
Intermediate sources	208,253	-	-	47,339	255,592
State sources	32,738,379	994,150	-	31,020	33,763,549
Federal sources	398,718	3,936,463	-	1,383,359	5,718,540
Total revenues	45,575,585	5,249,142	12,799	4,374,137	55,211,663
<b>Expenditures</b>					
Current:					
Instructional	25,921,632	2,700,434	2,590	-	28,624,656
Supporting services	16,423,522	2,313,635	-	-	18,737,157
Community services	-	144,153	-	-	144,153
Student activities	-	-	-	1,796,245	1,796,245
Nutritional services	-	-	-	1,753,319	1,753,319
Capital outlay	1,525,206	90,920	40,349	-	1,656,475
Debt service					
Principal	-	-	-	4,350,897	4,350,897
Interest & Fees	-	-	-	259,988	259,988
Total expenditures	43,870,360	5,249,142	42,939	8,160,449	57,322,890
Excess (deficiency) of revenues over (under) expenditures	1,705,225	-	(30,140)	(3,786,312)	(2,111,227)
Other financing sources (uses)					
Charter school allocations	(1,170,393)	-	-	-	(1,170,393)
Capital lease proceeds	1,074,813	-	-	-	1,074,813
Transfers from other funds	-	-	275,600	856,000	1,131,600
Transfers to other funds	(1,131,600)	-	-	-	(1,131,600)
Total other financing sources (uses)	(1,227,180)	-	275,600	856,000	(95,580)
Change in fund balance	478,045	-	245,460	(2,930,312)	(2,206,807)
Fund balance, beginning of year	7,523,549	-	2,053,939	6,844,574	16,422,062
Fund balance, end of year	\$ 8,001,594	\$ -	\$ 2,299,399	\$ 3,914,262	\$ 14,215,255

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

Montrose County School District No. RE - 1J

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

Year ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	(2,206,807)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:		
Capital outlay	\$	1,655,892
Depreciation expense	<u>(1,877,695)</u>	(221,803)
Some receivables will not be collected for several months after the District's fiscal year ends and are therefore not considered available revenues and are shown as deferred in the governmental funds. This is the amount by which the related deferred inflows increased.		
		61,980
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds:		
Pension expense	(4,748,487)	
Decrease in compensated absences payable	182,827	
Decrease in retirement benefits payable	<u>90,188</u>	(4,475,472)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		4,350,897
Issuance of new debt is recognized as other financing sources in the funds, but increases long-term liabilities in the statement of net position.		
		(1,074,813)
Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period, and therefore is not reported as a liability in the governmental funds. This is the amount that accrued interest increased.		
		(6,345)
Premiums and debt issuance costs on previously-issued bonds are amortized in the statement of activities.		
Amortization of bond premium		58,990
Amortization of loss on refunding		(64,749)
The change in net position of the internal service fund (before transfers) is reported with governmental activities in the statement of activities.		
		<u>625,153</u>
Change in net position of governmental activities	<u>\$</u>	<u>(2,952,969)</u>

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

Montrose County School District No. RE - 1J

STATEMENT OF NET POSITION - EMPLOYEE MEDICAL BENEFIT FUND

June 30, 2016

		Governmental Activities
		Internal Service Fund
		<u>Fund</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents		\$ 2,776,518
Investments		565,413
Accounts receivable		27
	Total assets	<u>3,341,958</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable		8,266
Claims payable		676,710
Unearned revenue		545,300
	Total liabilities	<u>1,230,276</u>
<b>NET POSITION</b>		
Unrestricted		<u>2,111,682</u>
	Total net position	<u>\$ 2,111,682</u>

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

Montrose County School District No. RE - 1J

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND  
NET POSITION - EMPLOYEE MEDICAL BENEFIT FUND

Year ended June 30, 2016

	Governmental Activities
	Internal Service Fund
Operating revenues	
Premiums	\$ 6,443,551
	<hr/>
Total operating revenues	6,443,551
Operating expenses	
Purchased services	650,342
Claims	5,171,180
	<hr/>
Total operating expenses	5,821,522
	<hr/>
Operating income (loss)	622,029
Non-operating revenues	
Interest income	3,124
	<hr/>
Total non-operating revenue	3,124
	<hr/>
Change in net position	625,153
Net position, beginning of year	1,486,529
	<hr/>
Net position, end of year	\$ 2,111,682
	<hr/> <hr/>

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

Montrose County School District No. RE - 1J

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2016

	Governmental Activities Internal Service Fund <u>Employee Medical Benefit</u>
Cash flows from operating activities	
Cash received from insurance premiums	\$ 6,669,139
Cash paid to suppliers	(650,687)
Cash paid for insurance claims	<u>(5,026,470)</u>
Net cash provided (used) by operating activities	991,982
Cash flows from investing activities	
Purchase of investments	1,684,396
Interest income	<u>3,124</u>
Net cash used by investing activities	<u>1,687,520</u>
Net increase (decrease) in cash and cash equivalents	2,679,502
Cash and cash equivalents, beginning of year	<u>97,016</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,776,518</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 622,029
Adjustment to reconcile net operating income (loss) to net cash provided (used) by operating activities	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	190,288
Increase(decrease) in accounts payable	(345)
Increase (decrease) in claims payable	144,710
Increase (decrease) in unearned revenue	<u>35,300</u>
Total adjustments	<u>369,953</u>
Net cash used by operating activities	<u><u>\$ 991,982</u></u>

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

Montrose County School District No. RE - 1J

STATEMENT OF FIDUCIARY NET POSITION  
SCHOLARSHIP TRUST FUNDS

June 30, 2016

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ASSETS	
Cash	\$ 67,426
Investments	1,240,212
Rental property	<u>10,000</u>
Total assets	1,317,638
LIABILITIES	
Scholarships payable	<u>184,526</u>
Total liabilities	184,526
NET POSITION	
Permanently restricted	885,400
Restricted for scholarships	<u>247,712</u>
Total net position	<u><u>\$ 1,133,112</u></u>

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

Montrose County School District No. RE - 1J

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
SCHOLARSHIP TRUST FUNDS

Year ended June 30, 2016

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Additions	
Earnings on deposits and investments	\$ 22,983
Contributions	32,395
Rental income	<u>7,200</u>
Total additions	62,578
Deductions	
Scholarships awarded	43,410
General and administrative	<u>1,013</u>
Total deductions	<u>44,423</u>
Change in net position	18,155
Net position, beginning of year	<u>1,114,957</u>
Net position, end of year	<u><u>\$ 1,133,112</u></u>

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Montrose County School District No. RE-1J (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units and the Financial Policies and Procedures Handbook as prescribed by State law. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, the District conforms to the Colorado Department of Education (CDE) Financial Policies and Procedures Handbook in all material respects required by Colorado Statutes. The District's more significant accounting policies are described below.

1. Reporting Entity

The District is a public school district organized under the laws of the State of Colorado and includes portions of Montrose, Gunnison, and Ouray Counties. The District is governed by an elected seven-member Board of Education.

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 organization 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 and from 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 No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, the Passage Charter School and Vista Charter School have been included in the District's basic financial statements in separate columns, as discretely presented component units.

The Passage Charter School operates a secondary-level public school and infant/toddler care center to serve the educational and child care needs of pregnant and parenting adolescents. Vista Charter School consists of an alternative high school and expulsion/intervention/prevention program. The charter schools contract with the District for payment of salaries, payroll costs, and other accounting services.

Complete financial statements of the Passage Charter School can be obtained from the administrative offices of the District or from the Passage Charter School at 703 S. 9<sup>th</sup> Street, Montrose, CO 81401 or by calling (970) 249-8066.

Complete financial statements of Vista Charter School can be obtained from the administrative offices of the District or from Vista Charter School at 1810 St. Mary's Dr., Montrose, CO 81401 or by calling (970) 249-4470.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report 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 normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from its legally separate *component units* for which the District is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function or segment. *Program revenues* include 1) charges to those 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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 and major individual enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *Designated Purpose Grants Fund* accounts for revenues and expenditures of local, state and federal grants.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Government-Wide and Fund Financial Statements - Continued

- The *Capital Projects Fund* accumulates resources to be used for capital purchases and repairs.

The remaining governmental funds are aggregated and presented as non-major funds. Those funds include the Nutritional Services Fund, the Student Activity Fund, the Fee-in-Lieu Fund, the Bond Fund, the QZAB/Capital Lease Fund, and the Building Fund. The Nutritional Services Fund accounts for activities of the District's school breakfast and lunch programs. The Student Activity Fund accounts for resources restricted by Colorado Revised Statutes (CRS) for student activities, such as school and athletic fees. The Fee-in-Lieu Fund accounts for monies received from new developments and is used for future capital projects. The QZAB/Capital Lease and Bond Funds account for the payment of principal and interest on long-term debt of the District. The Building Fund is used to account for the construction of large projects and large repairs to District facilities.

Internal Service Funds account for operations undertaken by District Staff that primarily support the District and/or its employees. The District's only internal service fund is the Employee Medical Benefit Fund which services the District's self-funded medical insurance program.

Fiduciary funds are used to account for funds held by the District in a trustee capacity for others. The District's only fiduciary fund is the Scholarship Trust Fund, which accounts for scholarship funds held by the District in a trustee capacity.

3. Measurement Focus, Basis of Accounting, and Basis of Presentation

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 statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Measurement Focus, Basis of Accounting, and Basis of Presentation - Continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due, and compensated absences and retirement benefits, which are recognized when the obligations are expected to be liquidated with expendable available resources. Entitlement revenues are not susceptible to accrual because generally they are not measurable until received. Grant revenues are recognized as they are earned.

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

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

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

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity

a. Deposits and Investments

For the purpose of the statement of cash flows, the District considers all highly liquid investment purchases with an original maturity of three months or less to be cash equivalents.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

Investments in external investment pools are stated at cost, which is equal to fair value. All other investments are stated at fair value based on quoted market prices.

b. Restricted Cash and Investments

Restricted cash and investments represent funds restricted by a lease agreement and the District's early retirement incentive program.

c. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Interfund receivables/payables within governmental activities are eliminated in the statement of net position.

Property taxes are levied in December and attach as a lien on property the following January 1. They are payable in full by April 30, or in two equal installments due February 28 and June 15. Property taxes previously levied and collected in the following year are reported as a receivable at June 30, net of an estimated uncollectible portion. The portion of the property taxes receivable and transportation revenues receivable not collected within 60 days after June 30 is recorded as deferred inflow of resources, since such tax collections are not available to pay liabilities of the fiscal year ended June 30.

d. Inventories

Inventories are considered expenditures when used and are stated at cost, on a first-in/first-out (FIFO) method. USDA commodities are valued at the purchase price of like items.

e. Prepayments and Deposits

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

f. Capital Assets

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

Maintenance, repairs and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the governmental fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The District does not capitalize interest on the construction of capital assets. The capitalization threshold of assets is \$5,000. The District's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets.

Depreciation of all capital assets used in governmental activities and by proprietary funds is charged as an expense against their operations. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	20
Vehicle and Equipment	5 – 15

g. Deferred Outflows

Deferred outflows consist of (1) loss-on-refunding costs that are amortized on the straight-line method over the term of the related debt and (2) pension amounts paid to PERA in the current calendar year that were made subsequent to PERA's measurement date.

h. Compensated Absences

It is the District's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. In the government-wide financial statements, vacation and sick pay are accrued when incurred and reported as a liability and an expense. A liability for these amounts is reported in the governmental funds only if they have matured, such as that resulting from employee resignations or retirements.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

i. Accrued Salaries

Salaries and benefits to teachers and certain other employees are paid over a 12-month period from September 1 to August 31, but are earned over a school year of approximately nine months. The salaries earned, but unpaid at June 30 are reflected in the financial statements as an accrued liability.

j. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method of amortization.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District's general obligation bonds are serviced from property taxes and other revenues of the Debt Service Fund. The District entered into a custody agreement with American National Bank to administer its Debt Service Fund. The long-term compensated absences and retirement benefit liabilities are serviced from revenues of the General Fund from future appropriations.

j. Deferred Inflows

Deferred inflows consist of the District's proportionate share of PERA's collective deferred pension inflows.

k. Fund Balance/Net Position

The District implemented GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows and Equity - Continued

*Non-spendable* – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

*Restricted* – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

*Committed* – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by 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* – includes amounts the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Superintendent or designee.

*Unassigned* – includes amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

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. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvements on those assets, excluding unspent bond proceeds. Net position are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

The permanently restricted net position of the Scholarship Trust Funds represents assets subject to donor-imposed stipulations that they be maintained permanently by the District. Generally the donors of such assets permit the District to use the income earned on the assets for the District's scholarship awards.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows and Equity - Continued

In March 2012 the District's Board of Education passed a resolution to maintain a fiscal year-end fund balance as an operating reserve in the General Fund of \$3,000,000. The Board resolved that the funds will be used only for an unexpected loss of revenue or an extraordinary expenditure. Expenditure of any of these funds requires prior Board approval. This amount is part of the General Fund's unassigned fund balance.

5. State Equalization Aid

State equalization aid is revenue received from the State of Colorado computed in accordance with a funding formula as defined by State statute. The funding formula considers such factors as pupil enrollment and other revenue sources.

6. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement Association (PERA) Pension Plan and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

7. Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, revenues, and expenses. Actual results could differ from these estimates. The District believes the techniques and assumptions used in establishing these estimates are appropriate.

**NOTE B – BUDGETARY INFORMATION**

The District follows these procedures in establishing the budgetary data reflected in the financial statements for its fiscal year ending June 30:

- The District adopts budgets for all funds.
- The proposed budget for the following fiscal year is submitted to the Board of Education on or before June 1 for its consideration.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE B – BUDGETARY INFORMATION – CONTINUED**

- By June 30, the budget is adopted and appropriations are made by formal resolution.
- Budgets for governmental funds are adopted on a basis consistent with GAAP. Budgets for proprietary and trust funds are adopted on a basis consistent with the spending measurement focus of the governmental funds.
- Appropriations lapse at the end of each fiscal year.
- Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund. The Board of Education may adopt supplemental appropriations during the year. Budget amounts included in the financial statements are based on the final, legally amended budget.

Originally adopted budgets, amendments and final amended budgeted expenditures for the year ended June 30, 2016 are as follows:

	Original <u>Budget</u>	<u>Supplemental</u>	Final <u>Budget</u>
General Fund	\$ 47,333,470	\$ –	\$ 47,333,470
Insurance Reserve Fund	824,175	–	824,175
Special Revenue Funds:			
Nutritional Service Fund	1,878,150	71,000	1,949,150
Designated Grants Fund	5,723,500	–	5,723,500
Student Activity Fund	1,900,000	–	1,900,000
Bond Redemption Fund	779,800	1,000	780,800
Capital Lease/QZAB Fund	3,730,600	100,000	3,830,600
Building Fund	60,000	440,000	500,000
Capital Projects Fund	484,000	699,000	1,183,000
Employee Medical Benefit			
Internal Service Fund	6,465,000	100,000	6,565,000
Scholarship Trust Fund	55,000	–	55,000
Total	<u>\$ 69,233,695</u>	<u>\$ 1,411,000</u>	<u>\$ 70,644,695</u>

Following is a summary of the Charter School's budget and actual expenditures for the year ended June 30, 2016:

	<u>Passage</u>	<u>Vista</u>
Actual Expenditures (Budgetary Basis)	\$ 273,332	\$ 1,179,516
Budgeted Expenditures	<u>283,417</u>	<u>2,965,150</u>
Variance – Favorable (Unfavorable)	<u>\$ 10,085</u>	<u>\$ 1,785,634</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE C – TAX, SPENDING AND DEBT LIMITATIONS**

In November 1992, Colorado voters passed an amendment to Article X, Section 20 (TABOR), of the State Constitution, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments, including an emergency reserve to be maintained at 3% of fiscal year spending (excluding bonded debt service). On November 5, 1996, the District electors approved the retention and spending of the District's non-tax revenues for the year ended June 30, 1996, and subsequent years, without regard to the limitations imposed by the Amendment. The District believes it is in compliance with the requirements of the Amendment. The amount restricted in the General Fund at June 30, 2016 for TABOR is \$1,380,353. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

**NOTE D – DEPOSITS AND INVESTMENTS**

1. Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government to deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The 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. The District does not have a formal deposit policy.

At June 30, 2016, the carrying amount of the District's deposits was \$16,476,132 and the bank balance was \$16,789,137. Of that balance \$1,002,551 was covered by FDIC insurance and \$15,786,586 was collateralized.

2. Investments

Colorado statutes define eligible investments for local governments. These include bonds and other interest-bearing obligations of the State of Colorado or any of its political subdivisions, repurchase agreements, commercial paper, guaranteed investment contracts and local government investment pools.

*Interest rate risk:* The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Colorado statutes do not allow investment maturities to exceed five years.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED**

2. Investments - Continued

*Credit risk:* Colorado statutes specify investment instruments meeting defined rating and risk criteria in which Colorado school districts may invest, which include:

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

The District's investment policy is to apply the "prudent investor" rule, which states "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculations, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

*Concentration of Credit Risk:* The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in investments guaranteed by the United States government.

The District has investments in a local government 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, 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 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](http://www.colotrust.com). Investments held in money market funds are not rated.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED**

All investments are Level 1 investments in the fair value hierarchy established by GASB 72 and are valued using quoted market prices. As of June 30, 2016, the District had the following investments:

	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less Than One</u>	<u>One to Five</u>
Interest Bearing Accounts with Brokers	\$ 392,815	\$ 392,815	\$ -
Money Market Funds with Brokers	385,718	385,718	-
COLOTRUST, AA+ Rated	668,554	668,554	-
Negotiable Certificate of Deposit	2,750,582	64,275	2,686,307
Government Bonds, AA+ Rated	1,370,471	-	1,370,471
Taxable Bonds, Not Rated	<u>247,268</u>	<u>-</u>	<u>247,268</u>
Total Investments	<u>\$ 5,815,408</u>	<u>\$ 1,511,362</u>	<u>\$ 4,304,046</u>

Cash and investments, as classified on the June 30, 2016 statement of net position, are as follows:

Cash on Hand	\$ 1,285
Deposits	16,476,132
Investments	<u>5,815,408</u>
Total Cash and Investments	<u>\$ 22,292,825</u>

Statement of Net Position:

Cash	\$ 16,275,099
Investments	4,575,205
Restricted Cash and Investments	<u>134,883</u>
Total	<u>20,985,187</u>

Statement of Fiduciary Net Position:

Cash	67,426
Investments	<u>1,240,212</u>
Total	<u>1,307,638</u>
Total Cash and Investments	<u>\$ 22,292,825</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED**

2. Investments - Continued

Cash and investments of the charter schools consist of the following as of June 30, 2016:

	<u>Passage</u>	<u>Vista</u>
Deposits:		
Carrying Amount	\$ <u>110,412</u>	\$ <u>1,288,658</u>
Bank Balances	129,138	1,464,973
Insured	<u>(129,138)</u>	<u>(1,198,604)</u>
Collateralized	\$ <u>          –</u>	\$ <u>266,370</u>
Investments:		
COLOTRUST		\$ <u>744,990</u>

**NOTE E – INTERFUND BALANCES AND TRANSFERS**

Outstanding interfund receivables and payables result mainly from the lag time between the dates payments between funds are made and borrowings from the pooled cash account. Therefore, all amounts are expected to be repaid within one year. Interfund receivables and payables consist of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 268,392	\$ 494,184
Insurance Reserve Fund	389,786	2,800
Special Grants Fund	43,875	288,543
Building Fund	12,458	–
Capital Reserve Fund	<u>111,365</u>	<u>40,349</u>
Total	\$ <u>825,876</u>	\$ <u>825,876</u>

Amounts due from component units to the District are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 37,039	\$ –
Vista Charter School	–	35,809
Passage Charter School	–	<u>1,230</u>
Total	\$ <u>37,039</u>	\$ <u>37,039</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE E – INTERFUND BALANCES AND TRANSFERS – CONTINUED**

Inter-fund transfers are used to move unrestricted revenues of various funds to other funds to provide subsidies, funds for various projects, and to meet legal obligations. Interfund transfers consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ –	\$ 1,955,775
Insurance Reserve Fund	824,175	–
Building Fund	200,000	–
Capital Projects Fund	275,600	–
QZAB/Capital Lease Fund	656,000	–
Total	<u>\$ 1,955,775</u>	<u>\$ 1,955,775</u>

**NOTE F – CAPITAL ASSETS**

The following is a summary of changes in the governmental and business-type capital assets for the year ended June 30, 2016:

Governmental Activities:	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Non-depreciable:				
Land	\$ 1,538,075	\$ –	\$ –	\$ 1,538,075
Construction in Progress	<u>53,406</u>	<u>263,222</u>	<u>(192,717)</u>	<u>123,911</u>
Total non-depreciable capital assets	1,591,481	263,222	(192,717)	1,661,986
Depreciable capital assets:				
Improvements	6,364,894	267,754	–	6,632,648
Buildings	62,022,595	16,656	–	62,039,251
Equipment	<u>4,824,111</u>	<u>1,300,977</u>	<u>(88,569)</u>	<u>6,036,519</u>
Total depreciable capital assets	<u>73,211,600</u>	<u>1,585,387</u>	<u>(88,569)</u>	<u>74,708,418</u>
Accumulated depreciation:				
Improvements	(2,778,155)	(315,116)	–	(3,093,271)
Buildings	(31,115,821)	(1,165,678)	–	(32,281,499)
Equipment	<u>(3,829,556)</u>	<u>(396,901)</u>	<u>88,569</u>	<u>(4,137,888)</u>
Total accumulated depreciation	<u>(37,723,532)</u>	<u>(1,877,695)</u>	<u>88,569</u>	<u>(39,512,658)</u>
Net depreciable capital assets	<u>35,488,068</u>	<u>(292,308)</u>	<u>–</u>	<u>35,195,760</u>
Total net capital assets	<u>\$ 37,079,549</u>	<u>\$ (29,086)</u>	<u>\$ (192,717)</u>	<u>\$ 36,857,746</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE F – CAPITAL ASSETS – CONTINUED**

Charter Schools:	Balance			Balance
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Passage:				
Building	\$ 363,286	\$ –	\$ –	\$ 363,286
Equipment	22,111	–	–	22,111
Accumulated depreciation	<u>(273,091)</u>	<u>(17,440)</u>	<u>–</u>	<u>(290,531)</u>
Net depreciable capital assets	<u>\$ 112,306</u>	<u>\$ (17,440)</u>	<u>\$ –</u>	<u>\$ 94,866</u>
Vista:				
Land	<u>\$ 595,320</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 595,320</u>
Total non-depreciable capital assets	595,320	–	–	595,320
Building	5,174,937	–	–	5,174,937
Equipment and vehicles	74,050	42,037	–	116,087
Accumulated depreciation	<u>(364,535)</u>	<u>(146,760)</u>	<u>–</u>	<u>(511,295)</u>
Net depreciable capital assets	<u>4,884,452</u>	<u>(104,723)</u>	<u>–</u>	<u>4,779,729</u>
Net non-depreciable and depreciable capital assets	<u>\$ 5,479,772</u>	<u>\$ (104,723)</u>	<u>\$ –</u>	<u>\$ 5,375,049</u>

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

Depreciation charges to programs

Governmental Activities:

Instruction	\$ 1,600,128
Supporting Services:	
Students	168,367
General Administration	41,302
School Administration	11,080
Business	11,255
Plant Operations and Maintenance	29,664
Nutritional Services	<u>15,899</u>
Total	<u>\$ 1,877,695</u>

Charter Schools:

Passage Charter School	\$ 17,440
Vista Charter School	<u>146,760</u>
Total	<u>\$ 164,200</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE G – LONG-TERM OBLIGATIONS**

1. General Obligation Bonds

The District issued general obligation bonds, Series 2002, in the amount of \$9,500,000, and a supplemental interest stripped “B” coupon, in the amount of \$230,610, dated December 1, 2002, and general obligation bonds, Series 2003, in the amount of \$1,500,000, and a supplemental interest stripped “B” coupon, in the amount of \$58,984, dated January 15, 2003. The indebtedness was approved by the electorate on November 5, 2002 to fund capital improvements. This indebtedness was refunded in fiscal year 2012. The principal balance of debt defeased in substance (to be paid by others) that remains outstanding as of June 30, 2016 is \$4,375,000.

The District issued general obligation refunding bonds, Series 2011, with a par balance of \$6,545,000 and a premium of \$707,876. These bonds are dated September 29, 2011 and were issued to refund the callable portions of the general obligation bonds Series 2002 and Series 2003. The bonds carry a variable interest rate ranging from 2.00% to 4.00% and mature on December 1, 2022. Principal and interest payments are made semiannually in June and December. The district received an upgrade from “no underlying rating” for the 2002 and 2003 bonds, to an underlying rating of “Aa3” for the Series 2011 bonds by Moody’s.

The refunding reduced total debt service payments over the next 10 years by \$730,329. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$657,751 for the year ended June 30, 2012.

Debt service requirements to maturity on general obligation bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	610,000	174,750	784,750
2018	630,000	153,000	783,000
2019	645,000	127,500	772,500
2020	675,000	101,100	776,100
2021	705,000	73,500	778,500
2022-2023	<u>1,485,000</u>	<u>59,900</u>	<u>1,544,900</u>
Total	<u>\$ 4,750,000</u>	<u>\$ 689,750</u>	<u>\$ 5,439,750</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE G – LONG-TERM OBLIGATIONS – CONTINUED**

2. Lease Purchase Agreements

On December 11, 2012 the District entered into a lease-purchase agreement with All American Investment Group, LLC, with the purpose of performing energy-efficiency upgrades to electrical, mechanical, plumbing, and other selected systems in certain buildings and properties throughout the District. The lease agreement has been designated as a “Qualified Tax-Exempt Obligation” for the purpose and within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. The total original principal amount of the contract was \$3,375,505, with a contract interest rate of 2.40% per annum. Payments, which include both principal and interest, occur at six-month intervals. Payments during fiscal year 2015-16 totaled \$255,985. Of that total, \$186,297 was principal, and \$69,688 was interest.

On December 29, 2015, the District entered into a lease-purchase agreement with Apple Financial Services to lease tablets. The total original principal amount of the contract was \$1,074,813, with a contract interest rate of 1.88% per annum. Payments, which include both principal and interest, occur at annual intervals. Payments during fiscal year 2015-16 totaled \$100,000 in principal payments.

Principal and interest payments on the District’s leases to maturity are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30,			
2017	424,412	74,598	499,010
2018	431,012	74,764	505,776
2019	447,158	65,571	512,729
2020	459,784	56,010	515,794
2021	219,760	46,217	265,977
2022-2026	1,299,187	144,520	1,443,707
2027-2028	<u>460,466</u>	<u>11,146</u>	<u>471,612</u>
Total	<u>\$ 3,741,779</u>	<u>\$ 472,826</u>	<u>\$ 4,214,605</u>

3. Accrued Liabilities for Compensated Absences

a. Vacation

Accrued vacation benefits represent accumulated vacation benefits of support and administrative employees. Employees may accumulate a maximum of two years vacation days with payment for unused days payable on termination, death or retirement.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE G – LONG-TERM OBLIGATIONS – CONTINUED**

3. Accrued Liabilities for Compensated Absences - Continued

b. General Leave/Sick Leave

General leave begins accruing on the first day of employment and accrues at the rate of 10 days per year. Employees with greater than 9 month contracts will accrue 1 additional day for each additional month contracted. Unused general leave in a given contract year accumulates as sick leave in subsequent years – up to 90 days. Employees may accumulate up to 90 days sick leave/general leave. At the end of each fiscal year, the unused leave in excess of 90 days is paid at the following rates: teachers at the rate of 75% of the cost of a substitute teacher; classified staff at the rate of 50% of their daily rates; and administrators at the rate of 40% of their daily rate, not to exceed \$100 per day. At the time of resignation, or other termination of employment, teachers and administrators shall be paid for accrued general leave at the rates stated above. Only classified staff eligible for the District’s retirement bonus program will be paid for accrued general leave and will be paid at the rate stated above. At the time of retirement, unsaved leave for teachers will be paid at a rate of 100% of the cost of a substitute and for administrators at 40% of the daily rate, not to exceed \$100 per day. Accrued general leave days shall be considered sick leave days.

Liabilities for compensated absences are liquidated by the General Fund or applicable special revenue funds.

4. Retirement Benefits

The retirement benefits payable represents the unpaid portion of the District’s retirement bonus program for certified personnel hired prior to May 1, 1986 and classified personnel hired prior to May 1, 1987 with a minimum of thirteen years of continuous employment. Payment is based on age and length of service. Annual payment requirements of those employees who have retired are as follows:

Retirement Benefits	
<u>Year ending June 30,</u>	
2017	\$ 62,244
2018	24,306
2019	24,306
2020	15,272
2021	8,755
Total	<u>\$ 134,883</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE G – LONG-TERM OBLIGATIONS – CONTINUED**

5. Changes in Long-Term Debt

During the period ended June 30, 2016, the following changes occurred in the District’s long-term obligations:

Governmental Activities:

	Balance <u>July, 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>	<u>Current</u>
General Obligation					
Bonds, Series 2011	\$ 5,340,000	\$ –	\$ (590,000)	\$ 4,750,000	\$ 610,000
Premium on Series 2011	<u>486,664</u>	<u>–</u>	<u>(58,990)</u>	<u>427,674</u>	<u>58,990</u>
Total GO Bonds	<u>5,826,664</u>	<u>–</u>	<u>(648,990)</u>	<u>5,177,674</u>	<u>668,990</u>
2012 Capital Lease	2,953,263	–	(186,297)	2,766,966	180,693
Apple Lease	–	1,074,813	(100,000)	974,813	243,719
QZAB	3,474,600	–	(3,474,600)	–	–
Retirement Bonuses	224,448	43,775	(133,340)	134,883	62,244
Compensated Absences	<u>1,637,011</u>	<u>–</u>	<u>(183,450)</u>	<u>1,453,561</u>	<u>215,723</u>
Totals	<u>\$ 14,115,986</u>	<u>\$ 1,118,588</u>	<u>\$ (4,726,677)</u>	<u>\$ 10,507,897</u>	<u>\$ 1,371,369</u>

**NOTE H – DEFINED BENEFIT PENSION PLAN**

1. Summary of Significant Accounting Policies

*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/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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

2. General Information about the 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 administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

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

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

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

2. General Information about the Pension Plan - Continued

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

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

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

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

2. General Information about the Pension Plan - Continued

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

<sup>1</sup>Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the District and component units for the year ended June 30, 2016 were as follows:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

2. General Information about the Pension Plan - Continued

Passage	\$	20,282
Vista		106,083
MCSD		<u>5,007,625</u>
District Total	\$	<u><u>5,133,990</u></u>

3. 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 \$103,914,217 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on the District's 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-wide proportion was .06794%, which was a decrease of .01420% from its proportion measured as of December 31, 2014. The District allocated 0.34% percent of that total to Passage Charter School, and 2.07% of that total to Vista Charter School, based on their share of PERA employer contributions paid through the District.

Allocation of Net Pension Liability (NPL)

<u>Entity</u>	<u>NPL</u>	<u>% of District Total</u>
District Only	\$ 101,409,279	97.59%
Passage Charter	356,659	0.34%
Vista Charter	<u>2,148,279</u>	<u>2.07%</u>
District-Wide Total	<u>\$ 103,914,217</u>	<u>100.00%</u>

For the year ended June 30, 2016, the recognized pension expense for the District and the two component units were as follows:

<u>Entity</u>	<u>Expense Amount</u>
School District Only	\$ 9,756,112
Passage Charter School	34,447
Vista Charter School	<u>249,958</u>
District-Wide Total	<u>\$ 10,040,517</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

At 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	\$ 1,339,121	\$ 4,323
Changes of assumptions or other inputs	–	1,433,093
Net difference between projected and actual earnings on pension plan investments	8,658,910	–
Changes in proportion and differences between contributions recognized and proportionate share of contributions	393,934	1,525,506
Contributions subsequent to the measurement date	<u>2,571,878</u>	<u>–</u>
Total	<u>\$ 12,963,843</u>	<u>\$ 2,962,922</u>

The \$2,571,878 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

<u>Year ended June 30,</u>	<u>Amortization</u>
2017	\$ 1,912,658
2018	1,843,904
2019	1,904,314
2020	<u>1,768,167</u>
	<u>\$ 7,429,043</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation:

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

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

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 November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimate of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>10 Year Expected Target Geometric Real 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 percent.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.9 percent.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AS the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

Based on those assumptions, the SCHDTF’s fiduciary net position was projected to be available to make all projected 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 proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage point higher (8.50 percent) than the current rate:

Sensitivity of the NPL

Discount rate:	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
Collective NPL	\$ 19,825,875,000	\$ 15,294,294,000	\$11,524,864,000
District Only	131,456,064	101,409,279	76,415,960
Vista Charter	2,784,799	2,148,280	1,618,815
Passage Charter	<u>462,335</u>	<u>356,659</u>	<u>268,757</u>
District-Wide Total	<u>\$ 134,703,198</u>	<u>\$ 103,914,219</u>	<u>\$ 78,303,532</u>

*Pension plan fiduciary net position.* Detailed information about the SCHDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at [www.copera.org/investment/pera-financial-reports](http://www.copera.org/investment/pera-financial-reports).

3. Payables to the pension plan

The District had no payables due to the SCHDTF at June 30, 2016.

**NOTE I – DEFINED CONTRIBUTION PENSION PLAN**

1. Plan Description

District employees who are members of the SDTF (see Note H) may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code (IRC) Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14, of the C.R.C., as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE I – DEFINED CONTRIBUTION PENSION PLAN – CONTINUED**

1. Plan Description - Continued

PERA issues a publicly available annual financial report for Colorado PERA's 401(k) and defined contribution plans. That report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

In addition, District employees may also contribute to a 403(b) tax-sheltered annuity plan, an IRC Section 403(b) defined contribution plan. This plan has a number of different administrators, depending on the investment selections of the employees. Plan participation is voluntary, and contributions are separate from others made to PERA and the 401(k) plan.

2. Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their contributions and investment earnings. The District makes no contributions to the Voluntary Investment Program.

**NOTE J – POST EMPLOYMENT HEALTH CARE BENEFITS**

1. Plan Description

The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer post-employment health care plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12, of the CRS, as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. The report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

2. Funding Policy

The District is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE J – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED**

2. Funding Policy - Continued

The apportionment of the contributions to the HCTF, from the defined benefit plan employer contribution (see Note H), is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended.

The District's contributions to HCTF for the years ended June 30, 2016, 2015, and 2014, were \$289,609, \$305,444 and \$280,308 respectively, equal to the required contributions for each year.

**NOTE K – 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 has established an Insurance Reserve Fund, a sub-fund of the General Fund, in accordance with Colorado Statutes to insure against loss or damage to property, pay premiums on loss insurances, and pay administrative costs. The Insurance Reserve Fund receives funding from a General Fund transfer. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

In addition, the District has established an Employee Medical Benefit Fund (EMBF) (an internal service fund) to account for and finance its uninsured risks of loss for employee health and accident insurance.

Under this program, EMBF provides coverage from the purchase of commercial insurance for a specific deductible of \$150,000, with an aggregating specific deductible of an additional \$100,000. The maximum aggregate benefit is \$1,000,000.

All funds of the District participate in the program and make payments to the EMBF based on estimates of the amounts needed to pay prior and current year claims. The claims liability of \$676,710, reported at June 30, 2016, is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred, but not reported.

Changes in the EMBF's claims liability amount for the past three years were as follows:

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimate</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2014	\$ 655,000	\$ 4,515,749	\$ 4,670,749	\$ 500,000
2015	500,000	4,882,598	4,850,598	532,000
2016	532,000	5,171,180	5,026,470	676,710

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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**NOTE L – COMMITMENTS**

In December 2010, the District, as the chartering authority for the charter school, entered into a sublease agreement with the State of Colorado and Vista Charter School, to construct a new building. The building is complete, but the sublease is ongoing, and the District continues in its underwriter relationship with the Charter School and the State. More information can be found in the financial statements of Vista Charter School.

**NOTE M – CONTINGENT LIABILITIES**

Under the terms of federal and state grants, costs may be questioned as not being appropriate expenditures under the terms of the grants which could lead to reimbursement to the grantor agencies. District management believes any questioned costs would be immaterial.

The District is subject to various claims arising from events occurring in its ordinary operations. District management believes that the disposition of these matters will not have a material adverse effect on the financial position of the District.

Montrose County School District No. RE - 1J

GENERAL FUND AND RELATED SUB-FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
<b>Revenues</b>				
<b>Local sources</b>				
General property tax	\$ 10,411,500	\$ 10,411,500	\$ 10,452,817	\$ 41,317
Specific ownership tax	1,400,000	1,400,000	1,384,445	(15,555)
Penalties and interest on delinquent tax	49,600	49,600	46,919	(2,681)
Investment earnings	4,300	4,300	95,218	90,918
Other	212,041	212,041	250,836	38,795
Total local sources	12,077,441	12,077,441	12,230,235	152,794
<b>Intermediate sources</b>				
Forest service collection	145,000	145,000	194,613	49,613
Mineral leasing	6,000	6,000	6,847	847
Impact fees	3,000	3,000	6,793	3,793
Total intermediate sources	154,000	154,000	208,253	54,253
<b>State sources</b>				
Equalization	30,193,600	30,193,600	30,571,618	378,018
Exceptional Children's Educational Act	884,900	884,900	1,129,667	244,767
Transportation	392,200	392,200	419,116	26,916
Vocational education	104,200	104,200	124,787	20,587
English Language Proficiency Act	122,659	122,659	349,418	226,759
Gifted and Talented	59,600	59,600	55,904	(3,696)
Other	43,700	43,700	87,869	44,169
Total state sources	31,800,859	31,800,859	32,738,379	937,520
<b>Federal sources</b>				
Medicaid	190,000	190,000	300,658	110,658
NJROTC	72,000	72,000	54,544	(17,456)
SWAP	43,000	43,000	43,516	516
Total federal sources	305,000	305,000	398,718	93,718
Total revenues	44,337,300	44,337,300	45,575,585	1,238,285
<b>Expenditures</b>				
<b>Current</b>				
Instructional services	26,482,700	26,482,700	25,921,632	561,068
<b>Supporting services</b>				
Students	2,459,200	2,459,200	2,752,939	(293,739)
Instruction	1,433,100	1,433,100	1,567,817	(134,717)
General administration	1,022,000	1,022,000	721,425	300,575
School administration	2,920,200	2,920,200	2,912,595	7,605
Business	823,800	823,800	733,729	90,071
Plant operations maintenance	5,240,020	5,240,020	5,030,687	209,333
Student transportation	1,798,500	1,798,500	1,716,852	81,648
Central services	942,925	942,925	848,953	93,972
Other	125,300	125,300	96,412	28,888
Other uses	59,900	59,900	42,113	17,787
Capital outlay	1,520,338	1,520,338	1,525,206	(4,868)
Total current expenditures	44,827,983	44,827,983	43,870,360	957,623
Emergency reserve	1,320,000	1,320,000	-	1,320,000
Contingency reserve	1,925,187	1,925,187	-	1,925,187
Other	84,475	84,475	-	84,475
Total expenditures	48,157,645	48,157,645	43,870,360	4,287,285
Excess (deficiency) of revenues over (under) expenditures	(3,820,345)	(3,820,345)	1,705,225	5,525,570
<b>Other financing sources (uses)</b>				
Proceeds from capital lease	-	-	1,074,813	1,074,813
Charter school allocations	(1,146,560)	(1,146,560)	(1,170,393)	(23,833)
Transfer (to)/from other funds	(1,031,600)	(1,031,600)	(1,131,600)	(100,000)
Total other financing sources (uses)	(2,178,160)	(2,178,160)	(1,227,180)	950,980
Change in fund balance	(5,998,505)	(5,998,505)	478,045	6,476,550
Fund balance, beginning of year	1,189,646	1,189,646	7,523,549	6,333,903
Fund balance, end of year	\$ (4,808,859)	\$ (4,808,859)	\$ 8,001,594	\$ 12,810,453

Montrose County School District No. RE - 1J

DESIGNATED PURPOSE GRANTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Local sources	\$ 360,526	\$ 360,526	\$ 318,529	\$ (41,997)
State sources	1,313,393	1,313,393	994,150	(319,243)
Federal sources	4,049,581	4,049,581	3,936,463	(113,118)
<b>Total revenues</b>	<b>5,723,500</b>	<b>5,723,500</b>	<b>5,249,142</b>	<b>(474,358)</b>
<b>Expenditures</b>				
<b>Current</b>				
Instructional services	3,013,920	3,013,920	2,700,434	313,486
Supporting services				
Students	791,758	791,758	780,216	11,542
Instruction	1,648,260	1,648,260	1,343,778	304,482
General administration	13,254	13,254	11,875	1,379
School administration	140,151	140,151	81,712	58,439
Plant operations maintenance	7,500	7,500	33,640	(26,140)
Student transportation	-	-	1,133	(1,133)
Central services	3,500	3,500	5,505	(2,005)
Business	-	-	1,379	(1,379)
Other	53,100	53,100	54,397	(1,297)
Community services	52,057	52,057	144,153	(92,096)
Capital outlay	-	-	90,920	(90,920)
<b>Total current expenditures</b>	<b>5,723,500</b>	<b>5,723,500</b>	<b>5,249,142</b>	<b>474,358</b>
Change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

Montrose County School District No. RE - 1J

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2016

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	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
<u>Measurement date:</u>					
December 31, 2014	0.67857%	\$ 91,969,306	\$ 28,427,842	324%	63%
December 31, 2015	0.66306%	101,409,279	28,895,561	351%	59%

Montrose County School District No. RE - 1J

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2016

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2015	\$ 5,245,937	\$ 5,245,937	\$ -	\$ 29,295,350	18%
June 30, 2016	5,144,580	5,144,580	-	29,012,232	18%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

Montrose County School District No. RE - 1J  
GENERAL FUND AND RELATED SUB-FUND  
COMBINING BALANCE SHEET

June 30, 2016

	General Fund	Insurance Reserve Fund	Total
<b>Assets</b>			
Cash	\$ 7,879,000	\$ 453,730	\$ 8,332,730
Investments	3,246,733	37,027	3,283,760
Receivables			
Taxes	817,584	-	817,584
Accounts	4,352	-	4,352
Intergovernmental	576,764	-	576,764
Due from other funds	268,392	389,786	658,178
Inventories	123,829	-	123,829
Prepaid expenses	792	-	792
Restricted cash for retirement benefits	134,883	-	134,883
	<u>\$ 13,052,329</u>	<u>\$ 880,543</u>	<u>\$ 13,932,872</u>
<b>Total assets</b>			
<b>Liabilities, deferred inflows of resources, and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 309,421	\$ 4,684	\$ 314,105
Due to other funds	494,184	2,800	496,984
Due to component units	37,039	-	37,039
Accrued salaries and benefits	4,478,264	-	4,478,264
	<u>5,318,908</u>	<u>7,484</u>	<u>5,326,392</u>
<b>Total liabilities</b>			
<b>Deferred inflows of resources</b>			
Unavailable property tax revenues	184,886	-	184,886
Unavailable transportation revenues	420,000	-	420,000
	<u>604,886</u>	<u>-</u>	<u>604,886</u>
<b>Total deferred inflows of resources</b>			
<b>Fund balances</b>			
<b>Nonspendable</b>			
Inventory	123,829	-	123,829
Prepaid expenses	792	-	792
<b>Restricted</b>			
Emergency Reserve - TABOR	1,380,353	-	1,380,353
<b>Committed</b>			
Retirement	268,224	-	268,224
<b>Assigned</b>			
School based health centers	263,064	-	263,064
Insurance	-	873,059	873,059
Prior year budget carryovers	236,900	-	236,900
Unassigned	4,855,373	-	4,855,373
	<u>7,128,535</u>	<u>873,059</u>	<u>8,001,594</u>
<b>Total fund balances</b>			
<b>Total liabilities, deferred inflows of resources, and fund balances</b>			
	<u>\$ 13,052,329</u>	<u>\$ 880,543</u>	<u>\$ 13,932,872</u>

Montrose County School District No. RE - 1J

GENERAL FUND AND RELATED SUB-FUND  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE

Year ended June 30, 2016

	General Fund	Insurance Reserve Fund	Total
<b>Revenues</b>			
Local sources	\$ 12,227,444	\$ 2,791	\$ 12,230,235
Intermediate sources	208,253	-	208,253
State sources	32,738,379	-	32,738,379
Federal sources	398,718	-	398,718
	<u>45,572,794</u>	<u>2,791</u>	<u>45,575,585</u>
Total revenues	45,572,794	2,791	45,575,585
<b>Expenditures</b>			
Current			
Instructional services	25,921,632	-	25,921,632
Supporting services	15,970,518	410,891	16,381,409
Other uses	42,113	-	42,113
Capital outlay	1,525,206	-	1,525,206
	<u>43,459,469</u>	<u>410,891</u>	<u>43,870,360</u>
Total expenditures	43,459,469	410,891	43,870,360
Excess (deficiency) of revenues over (under) expenditures	2,113,325	(408,100)	1,705,225
<b>Other financing sources (uses)</b>			
Charter school allocations	(1,170,393)	-	(1,170,393)
Proceeds from capital lease	1,074,813	-	1,074,813
Transfers from other funds	-	824,175	824,175
Transfers to other funds	(1,955,775)	-	(1,955,775)
	<u>(2,051,355)</u>	<u>824,175</u>	<u>(1,227,180)</u>
Total other financing sources (uses)	(2,051,355)	824,175	(1,227,180)
Change in fund balance	61,970	416,075	478,045
Fund balance, beginning of year	<u>7,066,565</u>	<u>456,984</u>	<u>7,523,549</u>
Fund balance, end of year	<u>\$ 7,128,535</u>	<u>\$ 873,059</u>	<u>\$ 8,001,594</u>

Montrose County School District No. RE - 1J

GENERAL FUND (Excluding insurance reserve sub-fund)  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Local sources				
General property tax	\$ 10,411,500	\$ 10,411,500	\$ 10,452,817	\$ 41,317
Specific ownership tax	1,400,000	1,400,000	1,384,445	(15,555)
Penalties and interest on delinquent tax	49,600	49,600	46,919	(2,681)
Investment earnings	4,000	4,000	95,214	91,214
Other	206,041	206,041	248,049	42,008
Total local sources	12,071,141	12,071,141	12,227,444	156,303
Intermediate sources				
Forest service collection	145,000	145,000	194,613	49,613
Mineral leasing	6,000	6,000	6,847	847
Impact fees	3,000	3,000	6,793	3,793
Total intermediate sources	154,000	154,000	208,253	54,253
State sources				
Equalization	30,193,600	30,193,600	30,571,618	378,018
Exceptional Children's Educational Act	884,900	884,900	1,129,667	244,767
Transportation	392,200	392,200	419,116	26,916
Vocational education	104,200	104,200	124,787	20,587
English Language Proficiency Act	122,659	122,659	349,418	226,759
Gifted and Talented	59,600	59,600	55,904	(3,696)
Other	43,700	43,700	87,869	44,169
Total state sources	31,800,859	31,800,859	32,738,379	937,520
Federal sources				
Medicaid	190,000	190,000	300,658	110,658
NJROTC	72,000	72,000	54,544	(17,456)
SWAP	43,000	43,000	43,516	516
Total federal sources	305,000	305,000	398,718	93,718
Total revenues	44,331,000	44,331,000	45,572,794	1,241,794
<b>Expenditures</b>				
Current				
Instructional services	26,482,700	26,482,700	25,921,632	561,068
Supporting services				
Students	2,459,200	2,459,200	2,752,939	(293,739)
Instruction	1,433,100	1,433,100	1,567,817	(134,717)
General administration	1,022,000	1,022,000	721,425	300,575
School administration	2,920,200	2,920,200	2,912,595	7,605
Business	823,800	823,800	733,729	90,071
Plant operations maintenance	4,510,570	4,510,570	4,714,550	(203,980)
Student transportation	1,798,500	1,798,500	1,716,852	81,648
Central services	848,200	848,200	754,199	94,001
Food services	-	-	14,062	(14,062)
Other	125,300	125,300	82,350	42,950
Other uses	59,900	59,900	42,113	17,787
Capital outlay	1,520,338	1,520,338	1,525,206	(4,868)
Total current expenditures	44,003,808	44,003,808	43,459,469	544,339
Emergency reserve	1,320,000	1,320,000	-	1,320,000
Contingency reserve	1,925,187	1,925,187	-	1,925,187
Other	84,475	84,475	-	84,475
Total expenditures	47,333,470	47,333,470	43,459,469	3,874,001
Excess (deficiency) of revenues over (under) expenditures	(3,002,470)	(3,002,470)	2,113,325	5,115,795
Other financing sources (uses)				
Proceeds from capital lease	-	-	1,074,813	1,074,813
Charter school allocations	(1,146,560)	(1,146,560)	(1,170,393)	(23,833)
Transfers to other funds	(1,855,775)	(1,855,775)	(1,955,775)	(100,000)
Total other financing sources (uses)	(3,002,335)	(3,002,335)	(2,051,355)	950,980
Change in fund balance	(6,004,805)	(6,004,805)	61,970	6,066,775
Fund balance, beginning of year	6,167,988	6,167,988	7,066,565	898,577
Fund balance, end of year	\$ 163,183	\$ 163,183	\$ 7,128,535	\$ 6,965,352

Montrose County School District No. RE - 1J

INSURANCE RESERVE FUND (A sub-fund of the General Fund)  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources				
Investment earnings	\$ 300	\$ 300	\$ 4	\$ (296)
Other	6,000	6,000	2,787	(3,213)
Total revenues	6,300	6,300	2,791	(3,509)
Expenditures				
Insurance premiums	729,450	729,450	316,137	413,313
Administration	94,725	94,725	94,754	(29)
Total expenditures	824,175	824,175	410,891	413,284
Excess (deficiency) of revenues over (under) expenditures	(817,875)	(817,875)	(408,100)	409,775
Other financing sources (uses)				
Transfers from other funds	824,175	824,175	824,175	-
Total other financing sources (uses)	824,175	824,175	824,175	-
Change in fund balance	6,300	6,300	416,075	409,775
Fund balance, beginning of year	398,224	398,224	456,984	58,760
Fund balance, end of year	\$ 404,524	\$ 404,524	\$ 873,059	\$ 468,535

Montrose County School District No. RE - 1J

EXPENDITURE MATRIX - GENERAL FUND (Excluding Insurance Reserve Sub-fund)

Year ended June 30, 2016

	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other	Total Actual	Final Budget	Variance Favorable (Unfavorable)
Instruction	\$ 18,365,847	\$ 6,156,857	\$ 643,043	\$ 458,620	\$ 1,290,558	\$ -	\$ 26,914,925	\$ 26,482,700	\$ (432,225)
Supporting services									
Students	1,896,477	614,355	227,639	12,412	83,391	185	2,834,459	2,459,200	(375,259)
Instruction	997,878	325,164	154,771	57,991	13,543	18,470	1,567,817	1,433,100	(134,717)
General administration	474,341	116,995	86,530	20,508	14,258	8,793	721,425	1,022,000	300,575
School administration	2,065,215	677,738	45,984	116,025	5,718	1,915	2,912,595	2,920,200	7,605
Business	458,550	138,163	118,347	10,514	8,600	(445)	733,729	823,800	90,071
Plant operations and maintenance	2,049,529	793,390	767,211	1,100,668	3,752	-	4,714,550	4,510,570	(203,980)
Student transportation	50,256	16,826	1,532,158	114,698	2,914	-	1,716,852	1,798,500	81,648
Central services	326,977	91,969	139,063	51,654	134,105	10,432	754,200	848,200	94,000
Other	3,689	80,805	8,475	3,443	-	-	96,412	125,300	28,888
Fiscal emergency reserve	-	-	-	-	-	-	-	1,320,000	1,320,000
Contingency reserve	-	-	-	-	-	-	-	1,925,187	1,925,187
Other	-	-	-	-	-	-	-	84,475	84,475
Total supporting services expenditures	8,322,912	2,855,405	3,080,178	1,487,913	266,281	39,350	16,052,039	19,270,532	3,218,494
Other uses	-	-	-	-	-	42,113	42,113	59,900	17,787
Capital outlay	-	-	238,864	-	211,528	-	450,392	1,520,338	1,069,946
Total actual expenditures	26,688,759	9,012,262	3,962,085	1,946,533	1,768,367	81,463	43,459,469	\$ 47,333,470	\$ 3,874,002
Final Budget	27,110,680	9,607,990	3,462,400	1,851,800	2,005,293	3,295,307	47,333,470		
Variance Favorable (Unfavorable)	\$ 421,922	\$ 595,728	\$ (499,685)	\$ (94,733)	\$ 236,926	\$ 3,213,844	\$ 3,874,002		

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET

June 30, 2016

	Nutritional Services Fund	Student Activity Fund	Fee-in-Lieu Fund	Bond Redemption Fund	QZAB/ Capital Lease Fund	Building Fund	Total
<b>Assets</b>							
Cash	\$ 379,241	\$ 962,078	\$ 204,660	\$ -	\$ 139,725	\$ 1,301,724	\$ 2,987,428
Investments	558	-	-	648,508	-	440	649,506
Accounts receivable	82,509	5,366	-	198,539	-	-	286,414
Due from other funds	-	-	-	-	-	12,458	12,458
Inventories	148,379	-	-	-	-	-	148,379
<b>Total assets</b>	<b>\$ 610,687</b>	<b>\$ 967,444</b>	<b>\$ 204,660</b>	<b>\$ 847,047</b>	<b>\$ 139,725</b>	<b>\$ 1,314,622</b>	<b>\$ 4,084,185</b>
<b>Liabilities, deferred inflows of resources, and fund balances</b>							
<b>Liabilities</b>							
Accounts payable	433	11,692	\$ -	\$ -	\$ -	\$ -	\$ 12,125
Accrued expenses	117,375	750	-	-	-	-	118,125
Unearned revenue	26,830	-	-	-	-	-	26,830
<b>Total liabilities</b>	<b>144,638</b>	<b>12,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,080</b>
<b>Deferred inflows of resources</b>							
Unavailable property tax revenue	-	-	-	12,843	-	-	12,843
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,843</b>	<b>-</b>	<b>-</b>	<b>12,843</b>
<b>Fund balances</b>							
<b>Non-spendable</b>							
Inventories	148,379	-	-	-	-	-	148,379
<b>Restricted</b>							
Debt Service	-	-	-	834,204	-	-	834,204
<b>Committed</b>							
Debt service	-	-	-	-	139,725	-	139,725
Nutritional service	317,670	-	-	-	-	-	317,670
Student activities	-	955,002	-	-	-	-	955,002
Capital projects	-	-	204,660	-	-	1,314,622	1,519,282
<b>Total fund balances</b>	<b>466,049</b>	<b>955,002</b>	<b>204,660</b>	<b>834,204</b>	<b>139,725</b>	<b>1,314,622</b>	<b>3,914,262</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 610,687</b>	<b>\$ 967,444</b>	<b>\$ 204,660</b>	<b>\$ 847,047</b>	<b>\$ 139,725</b>	<b>\$ 1,314,622</b>	<b>\$ 4,084,185</b>

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE

Year ended June 30, 2016

	Nutritional Services Fund	Student Activity Fund	Fee-in-Lieu Fund	Bond Redemption Fund	QZAB/ Capital Lease Fund	Building Fund	Total
<b>Revenues</b>							
Local sources	\$ 242,075	\$ 1,822,285	\$ -	\$ 795,458	\$ 52,590	\$ 11	\$ 2,912,419
Intermediate sources	-	-	47,061	278	-	-	47,339
State sources	31,020	-	-	-	-	-	31,020
Federal sources	1,383,359	-	-	-	-	-	1,383,359
<b>Total revenues</b>	<b>1,656,454</b>	<b>1,822,285</b>	<b>47,061</b>	<b>795,736</b>	<b>52,590</b>	<b>11</b>	<b>4,374,137</b>
<b>Expenditures</b>							
Current:							
Student activities	-	1,796,245	-	-	-	-	1,796,245
Food service	1,753,319	-	-	-	-	-	1,753,319
Capital outlay	-	-	-	-	-	-	-
Debt service							
Principal	-	-	-	590,000	3,760,897	-	4,350,897
Interest and fees	-	-	-	190,300	69,688	-	259,988
<b>Total expenditures</b>	<b>1,753,319</b>	<b>1,796,245</b>	<b>-</b>	<b>780,300</b>	<b>3,830,585</b>	<b>-</b>	<b>8,160,449</b>
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(96,865)	26,040	47,061	15,436	(3,777,995)	11	(3,786,312)
Other financing sources (uses)							
Transfers from other funds	-	-	-	-	656,000	200,000	856,000
Change in fund balance	(96,865)	26,040	47,061	15,436	(3,121,995)	200,011	(2,930,312)
Fund balance, beginning of year	562,914	928,962	157,599	818,768	3,261,720	1,114,611	6,844,574
Fund balance, end of year	\$ 466,049	\$ 955,002	\$ 204,660	\$ 834,204	\$ 139,725	\$ 1,314,622	\$ 3,914,262

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - NUTRITIONAL SERVICE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources				
Food sales	\$ 259,600	\$ 259,600	\$ 241,449	\$ (18,151)
Miscellaneous	-	-	626	626
	<u>259,600</u>	<u>259,600</u>	<u>242,075</u>	<u>(17,525)</u>
State sources				
K-12 reduced lunch program	14,100	14,100	10,964	(3,136)
Start smart	12,000	12,000	6,067	(5,933)
State child nutrition match	18,000	18,000	13,989	(4,011)
Total state sources	<u>44,100</u>	<u>44,100</u>	<u>31,020</u>	<u>(13,080)</u>
Federal sources				
National school lunch program	1,435,500	1,435,500	1,256,055	(179,445)
Commodities	115,000	115,000	115,717	717
Other grants	16,000	16,000	11,587	(4,413)
Total federal sources	<u>1,566,500</u>	<u>1,566,500</u>	<u>1,383,359</u>	<u>(183,141)</u>
Total revenues	<u>1,870,200</u>	<u>1,870,200</u>	<u>1,656,454</u>	<u>(213,746)</u>
Expenditures				
Current				
Food service activities	<u>1,878,150</u>	<u>1,949,150</u>	<u>1,753,319</u>	<u>195,831</u>
Change in fund balance	(7,950)	(78,950)	(96,865)	(17,915)
Fund balance, beginning of year	<u>798,808</u>	<u>798,808</u>	<u>562,914</u>	<u>(235,894)</u>
Fund balance, end of year	<u>\$ 790,858</u>	<u>\$ 719,858</u>	<u>\$ 466,049</u>	<u>\$ (253,809)</u>

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - STUDENT ACTIVITY FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Student activities	\$ 1,900,000	\$ 1,900,000	1,822,285	\$ (77,715)
Expenditures				
Current				
Student activities	1,900,000	1,900,000	1,796,245	103,755
Excess (deficiency) of revenues over (under) expenditures	-	-	26,040	26,040
Change in fund balance	-	-	26,040	26,040
Fund balance, beginning of year	872,247	872,247	928,962	56,715
Fund balance, end of year	\$ 872,247	\$ 872,247	\$ 955,002	\$ 82,755

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - FEE-IN-LIEU FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Investment earnings	\$ 90	\$ 90	\$ -	\$ (90)
Intermediate sources				
Fees in lieu of land dedication	30,000	30,000	47,061	17,061
Total revenues	30,090	30,090	47,061	16,971
Expenditures				
Supporting services	-	-	-	-
Change in fund balance	30,090	30,090	47,061	16,971
Fund balance, beginning of year	144,665	144,665	157,599	12,934
Fund balance, end of year	\$ 174,755	\$ 174,755	\$ 204,660	\$ 29,905

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - BOND REDEMPTION FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
General property tax	\$ 779,800	\$ 779,800	\$ 791,331	\$ 11,531
Penalties and interest on delinquent tax	-	-	3,534	3,534
Investment and interest earnings	-	-	593	593
Other fees	-	-	278	278
Total revenues	<u>779,800</u>	<u>779,800</u>	<u>795,736</u>	<u>15,936</u>
Expenditures				
Debt service				
Principal	590,000	590,000	590,000	-
Interest	189,550	189,550	189,800	(250)
Bank fees	250	1,250	500	750
Total expenditures	<u>779,800</u>	<u>780,800</u>	<u>780,300</u>	<u>500</u>
Change in fund balance	-	(1,000)	15,436	16,436
Fund balance, beginning of year	<u>802,018</u>	<u>802,018</u>	<u>818,768</u>	<u>16,750</u>
Fund balance, end of year	<u>\$ 802,018</u>	<u>\$ 801,018</u>	<u>\$ 834,204</u>	<u>\$ 33,186</u>

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - CAPITAL LEASE/QZAB FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Investment and interest earnings	\$ 80,000	\$ 80,000	\$ 52,590	\$ (27,410)
Expenditures				
Debt service				
Principal	3,660,900	3,760,900	3,760,897	3
Interest	69,700	69,700	69,688	12
Total expenditures	3,730,600	3,830,600	3,830,585	15
Excess (deficiency) of revenues over (under) expenditures	(3,650,600)	(3,750,600)	(3,777,995)	(27,395)
Other financing sources (uses)				
Transfers from other funds	456,000	456,000	656,000	200,000
Net change in fund balance	(3,194,600)	(3,294,600)	(3,121,995)	172,605
Fund balance, beginning of year	3,220,280	3,220,280	3,261,720	41,440
Fund balance, end of year	\$ 25,680	\$ (74,320)	\$ 139,725	\$ 214,045

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUND - BUILDING FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Investment and interest earnings	\$ 300	\$ 300	\$ 11	\$ (289)
Expenditures				
Current				
Capital outlay	60,000	500,000	-	500,000
Excess (deficiency) of revenues over (under) expenditures	(59,700)	(499,700)	11	499,711
Other financing sources (uses)				
Transfers from other funds	200,000	200,000	200,000	-
Change in fund balance	140,300	(299,700)	200,011	499,711
Fund balance, beginning of year	1,137,035	1,137,035	1,114,611	(22,424)
Fund balance, end of year	<u>\$ 1,277,335</u>	<u>\$ 837,335</u>	<u>\$ 1,314,622</u>	<u>\$ 477,287</u>

Montrose County School District No. RE - 1J

CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive
				(Negative)
Revenues				
Local sources				
Investment and interest earnings	\$ 800	\$ 800	\$ 995	\$ 195
Mini bus charges	20,000	20,000	11,804	(8,196)
Total revenues	20,800	20,800	12,799	(8,001)
Expenditures				
Current				
Instructional	174,000	260,991	2,590	258,401
Supporting services				
Students	113,000	113,000	-	113,000
Instruction	92,000	132,206	-	132,206
Central	-	193,270	-	193,270
Capital outlay	105,000	483,533	40,349	443,184
Total expenditures	484,000	1,183,000	42,939	1,140,061
Excess (deficiency) of revenues over (under) expenditures	(463,200)	(1,162,200)	(30,140)	1,132,060
Other financing sources (uses)				
Transfers from other funds	375,600	375,600	275,600	(100,000)
Net changes in fund balance	(87,600)	(786,600)	245,460	1,032,060
Fund balance, beginning of year	1,671,997	1,671,997	2,053,939	381,942
Fund balance, end of year	\$ 1,584,397	\$ 885,397	\$ 2,299,399	\$ 1,414,002

Montrose County School District No. RE - 1J

EMPLOYEE MEDICAL BENEFIT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Premiums	\$ 6,623,200	\$ 6,623,200	\$ 6,443,551	\$ (179,649)
Interest income	1,300	1,300	3,124	1,824
Total revenues	<u>6,624,500</u>	<u>6,624,500</u>	<u>6,446,675</u>	<u>(177,825)</u>
Expenditures				
Claims	5,825,000	5,925,000	5,171,180	753,820
Insurance premiums and administration	<u>640,000</u>	<u>640,000</u>	<u>650,342</u>	<u>(10,342)</u>
Total expenditures	<u>6,465,000</u>	<u>6,565,000</u>	<u>5,821,522</u>	<u>743,478</u>
Change in net position	159,500	59,500	625,153	565,653
Net position, beginning of year	<u>1,191,655</u>	<u>1,191,655</u>	<u>1,486,529</u>	<u>294,874</u>
Net position, end of year	<u>\$ 1,351,155</u>	<u>\$ 1,251,155</u>	<u>\$ 2,111,682</u>	<u>\$ 860,527</u>

Montrose County School District No. RE - 1J

SCHOLARSHIP TRUST FUNDS  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Investment earnings	\$ 16,000	\$ 16,000	\$ 22,983	\$ 6,983
Contributions	31,800	31,800	32,395	595
Rental income	7,200	7,200	7,200	-
Total revenues	55,000	55,000	62,578	7,578
Expenditures				
Scholarships awarded	54,000	54,000	43,410	10,590
General and administrative	1,000	1,000	1,013	(13)
Total expenditures	55,000	55,000	44,423	10,577
Change in net position	-	-	18,155	18,155
Net position, beginning of year	1,110,042	1,110,042	1,114,957	4,915
Net position, end of year	\$ 1,110,042	\$ 1,110,042	\$ 1,133,112	\$ 23,070

Montrose County School District No. RE-1J

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-thru ID</u>	<u>2016 Amount of Award Expended</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through Colorado Department of Education			
School Breakfast Program	10.553	4553	\$ 300,322
National School Lunch Program	10.555	4555	1,000,579
Summer Food Service Program for Children	10.559	4559	<u>82,458</u>
Child Nutrition Cluster Sub-Total			<u>1,383,359</u>
Total U.S. Department of Agriculture			1,383,359
<b>U.S. DEPARTMENT OF DEFENSE</b>			
NJROTC	12.000	9001	<u>54,544</u>
Total U.S. Department of Defense			54,544
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through Colorado Department of Education			
Adult Education – Basic Grants to States	84.002	5002-6002	110,567
Title I Grants to Local Educational Agencies	84.010	4010	1,282,980
Special Education – Grants to States	84.027	4027	1,189,975
Special Education – Preschool Grants	84.173	4173	<u>30,742</u>
Special Education Cluster (IDEA) Sub-Total			1,220,717
Rehabilitation Services – Vocational Rehabilitation Grants			
To States	84.126	5126	105,712
Rural Education	84.358	7358	126,581
English Language Acquisition State Grants	84.365	4365	66,135
Improving Teacher Quality State Grants	84.367	4367	198,923
Passed through State Board for Community College and Occupation Education			
Career and Technical Education – Basic Grants to States	84.048	4048	<u>50,861</u>
Total U.S. Department of Education			3,162,476
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Highway Planning and Construction	20.205	7205	<u>13,971</u>
Total DOT Federal Highway Administration			13,971
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Head Start	93.600	8600	<u>759,990</u>
Total U.S. Department of Health and Human Services			<u>759,990</u>
Total expenditures of federal awards			<u>\$ 5,374,340</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

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**NOTE A – GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs expended by Montrose County School District No. RE-1J. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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.

**NOTE B – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.



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

November 5, 2016

Board of Education  
Montrose County School District RE-1J

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montrose County School District RE-1J (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 5, 2016. Our report includes a reference to other auditors who audited the financial statements of Passage Charter School, as described in our report on Montrose County School District RE-1J's financial statements. The financial statements of Passage Charter School and Vista Charter School were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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



Board of Education  
November 5, 2016

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Chadwick, Steinkirchner, Davis & Co., P.C.*



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

November 5, 2016

Board of Education  
Montrose County School District RE-1J

**Report on Compliance for Each Major Federal Program**

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Montrose County School District RE-1J, 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.



Board of Education  
November 5, 2016

### **Report on Internal Control Over Compliance**

Management of Montrose County School District RE-1J, 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 District'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 District's internal control over compliance.

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

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

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

*Chadwick, Steinkirchner, Davis & Co., P.C.*

Montrose County School District No. RE-1J

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:		<u>Unmodified Opinion</u>		
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	<u>  ✓  </u>	no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____	yes	<u>  ✓  </u>	none reported
Noncompliance material to financial statements noted?	_____	yes	<u>  ✓  </u>	no

Federal Awards

Internal Control over major programs:				
Material weakness(es) identified?	_____	yes	<u>  ✓  </u>	no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____	yes	<u>  ✓  </u>	none reported

Type of auditor's report issued on compliance for major programs:		<u>Unmodified Opinion</u>		
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	_____	yes	<u>  ✓  </u>	no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000			
Auditee qualified as low-risk auditee?	<u>  ✓  </u>	yes	_____	no

Montrose County School District No. RE-1J

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

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SECTION II - FINDINGS UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING  
STANDARDS

There were no findings under generally accepted government auditing standards.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs.

Montrose County School District No. RE-1J

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2016

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There were no findings or questioned costs for the year ended June 30, 2015.



**Colorado Department of Education**  
**Auditors Integrity Report**  
 District: 2180 - MONTROSE COUNTY RE-1J  
 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	7,066,565	43,521,438	43,459,468	7,128,534
18 Risk Mgmt Sub-Fund of General Fund	456,985	826,966	410,891	873,060
19 Colorado Preschool Program Fund	0	0	0	0
<b>Sub- Total</b>	<b>7,523,550</b>	<b>44,348,403</b>	<b>43,870,359</b>	<b>8,001,594</b>
11 Charter School Fund	1,877,970	1,519,692	1,452,847	1,944,814
20,26-29 Special Revenue Fund	157,599	47,061	0	204,660
21 Food Service Spec Revenue Fund	562,915	1,656,453	1,753,319	466,049
22 Govt Designated-Purpose Grants Fund	0	5,249,142	5,249,142	0
23 Pupil Activity Special Revenue Fund	928,962	1,822,285	1,796,245	955,002
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	818,767	795,737	780,300	834,204
39 Certificate of Participation (COP) Debt Service Fund	3,261,720	708,589	3,830,585	139,725
41 Building Fund	1,114,612	200,010	0	1,314,622
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	2,053,939	288,399	42,939	2,299,399
<b>Totals</b>	<b>18,300,034</b>	<b>56,635,770</b>	<b>58,775,736</b>	<b>16,160,068</b>
<b>Proprietary</b>				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	1,486,530	3,124	-622,028	2,111,683
<b>Totals</b>	<b>1,486,530</b>	<b>3,124</b>	<b>-622,028</b>	<b>2,111,683</b>
<b>Fiduciary</b>				
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	0	0	0	0
79 GASB 34:Permanent Fund	1,114,957	62,579	44,423	1,133,113
85 Foundations	0	0	0	0
<b>Totals</b>	<b>1,114,957</b>	<b>62,579</b>	<b>44,423</b>	<b>1,133,113</b>

FINAL

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