

SOUTHWEST OPEN SCHOOL

Independent Accountants' Reports
and
Basic Financial Statements

June 30, 2017



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SOUTHWEST OPEN SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Southwest Open School
Cortez, Colorado 81321

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate fund information of the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Open School, component unit of Montezuma County (Cortez) School District RE-1 basic financial statements. The Capital Project Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Capital Projects Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Capital Project Fund budgetary comparison schedule and the Colorado Department of Education Charter School Auditors Integrity Report are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Majors and Haley PC

Majors and Haley, P.C.
October 10, 2017

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Southwest Open School, Colorado ("School") financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2017. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The School's net position decreased by \$1,039,303. This decrease was solely the result of the School's share of PERA's pension expense which totaled \$1,061,003.
- The School's total revenue was \$1,558,428, which is a decrease of \$16,022 from \$1,574,450 in the prior year.
 - General revenues (primarily the per pupil charter school allocation of \$1,039,585) accounted for \$1,092,909 in revenue, or 70.1% of all revenues. Program specific revenues in the form of grants accounted for \$465,519, or the remaining 29.9%.
- The School incurred \$2,597,731 in expenses which is an increase of \$1,058,332 from \$1,539,399 in the prior year. The increase in expenses is once again, solely the result of the School's share of PERA's pension expense.
 - The general revenues of \$1,092,909 were adequate to cover all but \$1,039,303 of the \$2,132,212 in expenditures that were not offset by program specific revenues.
- The General Fund reported a \$66,500 increase in fund balance from \$691,134 in the prior year to \$757,634. This is a 9.6% increase.
 - General Fund revenues increased \$20,870 from \$1,090,578 in the prior year to \$1,111,448 for a 1.9% increase.
 - General Fund expenditures decreased \$29,789 from \$1,074,737 in the prior year to \$1,044,948 for a 2.8% decrease.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

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

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

School-wide Financial Statements

The School-wide financial statements are designed to provide the reader of the School Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The school-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 School's assets, liabilities and deferred inflows and outflows, with the difference reported as net position.
- The Statement of Activities presents information showing how the net position of the School changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all the revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

In the School-wide financial statements, the School's activities are presented in the following categories:

- **Governmental activities** – All the School's basic services are included here, such as instruction, students, operations and maintenance, and administration. These activities are financed mainly through general revenues (per pupil charter school allocation from Montezuma County (Cortez) School District RE-1; Public Land monies; Impact Aid monies and local miscellaneous monies).

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

Fund Financial Statements

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

The School uses one type of fund:

- ***Governmental funds*** - All of the School's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the year ended June 30, 2017 the School's liabilities and deferred inflows were more than its assets and deferred outflows by \$1,530,807. The negative balance is due to the implementation of GASB 68, resulting in a net pension liability of \$5,304,608 representing its proportionate share of the state retirement system plan. Current year activities decreased the net position by \$1,039,303. \$45,000 of the total net position is restricted for emergencies required to comply with the Tabor amendment.

The following table provides a summary of the Statement of Net Position for governmental activities as of June 30, 2017 and 2016.

SOUTHWEST OPEN SCHOOL

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

For the Year Ended June 30, 2017

Table 1
Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	2017	2016
Assets		
Current assets	\$ 1,343,333	\$1,301,119
Capital assets, net of depreciation	614,307	609,093
Total assets	<u>1,957,640</u>	<u>1,910,212</u>
Deferred Outflows of Resources	<u>2,032,730</u>	<u>319,897</u>
Liabilities		
Current liabilities	192,601	166,873
Noncurrent liabilities	5,304,608	2,483,979
Total liabilities	<u>5,497,209</u>	<u>2,650,852</u>
Deferred Inflows of Resources	<u>23,968</u>	<u>70,761</u>
Net Position		
Invested in capital asset	614,307	609,093
Restricted for TABOR	45,000	45,000
Unrestricted	(2,190,114)	(1,145,597)
Total net position	<u>\$ (1,530,807)</u>	<u>\$ (491,504)</u>

At the close of the most recent fiscal year current assets comprised \$1,343,333 (68.6%) of the School's assets. The investments in capital assets, less depreciation was \$614,307. There was an increase in total assets from \$1,910,212 in the prior year to \$1,957,640. Accrued wages and benefits represent 67.7% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other School employees' work nine or ten months of the year, but are paid over a full twelve months. Current liabilities increased from \$166,873 in the prior year to \$192,601. Deferred outflows of resources net of deferred inflows of resources increased \$1,759,626.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

The following table provides a summary of Changes Net Position for governmental activities in fiscal year 2017 and 2016.

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

	Governmental Activities	
	2017	2016
Revenues		
Program revenues		
Operating grants and contributions	\$ 425,536	\$ 483,082
Capital grants and contributions	39,983	37,223
General revenues		
Per pupil charter school allocation	1,039,585	1,002,848
Impact Aid and Public lands	34,202	51,062
Other	19,122	235
Total revenues	1,558,428	1,574,450
Expenses		
Instruction	1,242,748	628,865
Students	316,623	252,606
Instructional staff	47,686	13,679
General administration	39,930	38,194
School administration	664,262	396,704
Business	139,096	71,157
Operations and maintenance of plant	68,061	67,322
Student transportation	16,142	20,432
Central	29,607	20,572
Facilities acquisition	33,576	29,868
Total expenses	2,597,731	1,539,399
Increase (decrease) in net position	\$(1,039,303)	\$ 35,051

SOUTHWEST OPEN SCHOOL

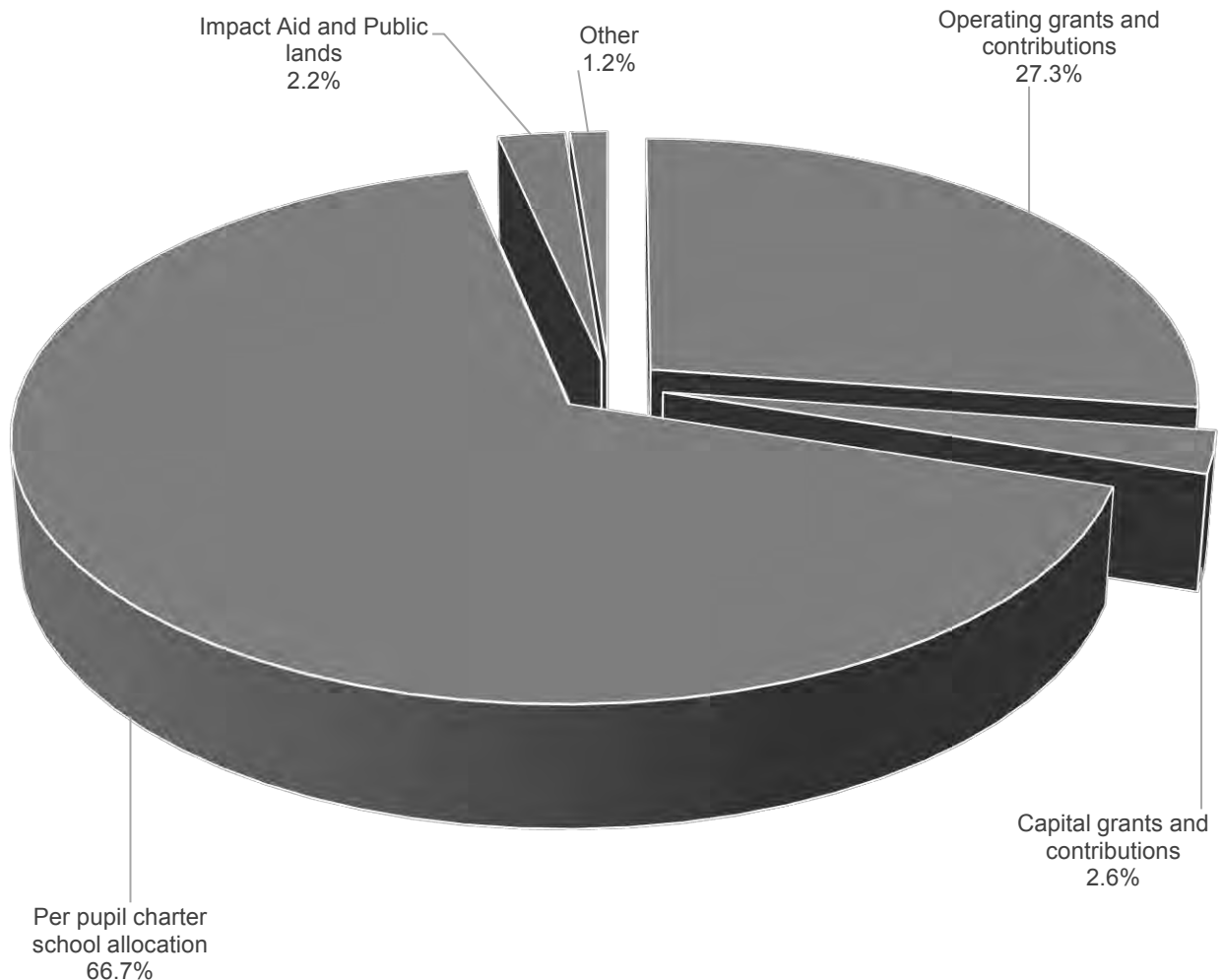
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

Per pupil charter school allocation accounted for most of the School's total revenue, contributing 66.7 percent. Another 29.9 percent came from state and federal grants and the remainder from miscellaneous sources. See Table 3.

The School's expenses are predominately related to instruction at 47.8 percent. Students and instructional staff was 14%, administration and business accounted for 32.5 percent and operations and maintenance of plant made up 2.6%. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2017

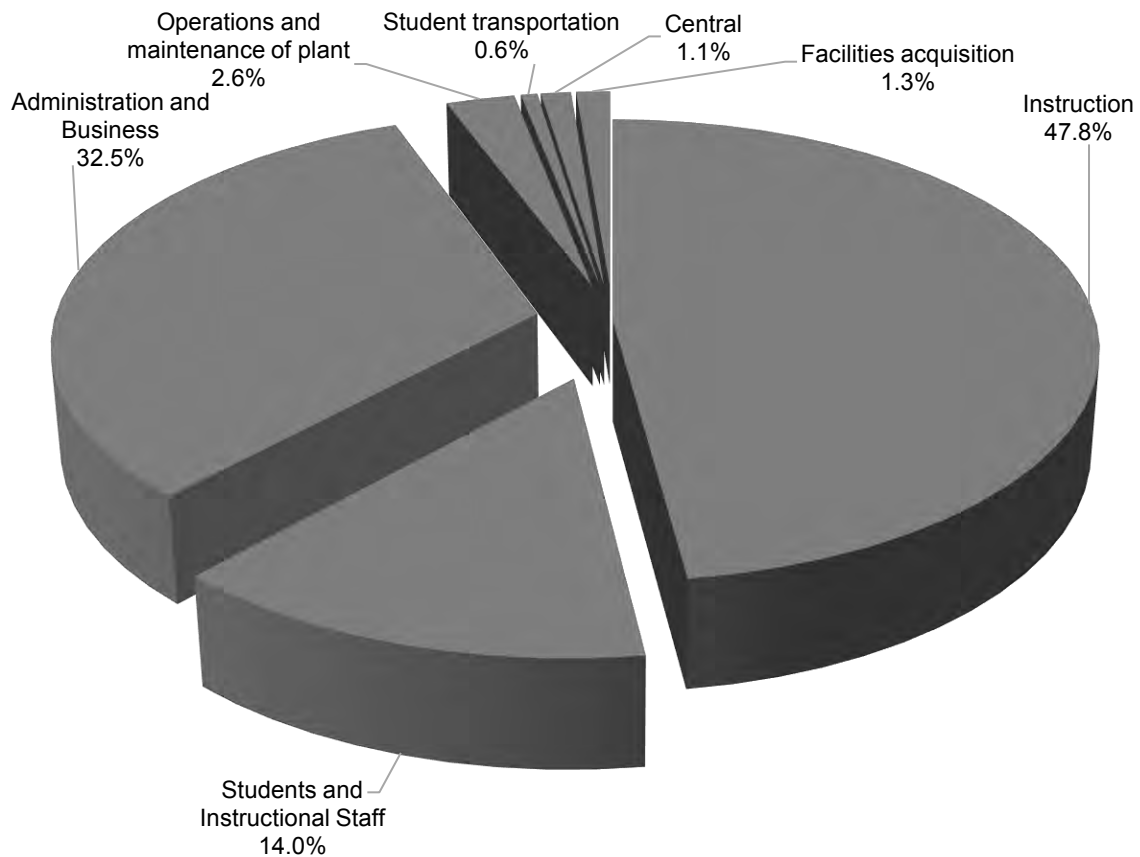


SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

Table 4
Expenses for Fiscal Year 2017



Governmental Activities

The primary source of operating revenue for the School comes from per pupil charter school allocation (\$1,039,585) from Montezuma County (Cortez) School District RE-1. The School received \$7,219.34 per funded student. In fiscal year 2017 the funded pupil count was 144. Funding for the charter school allocation comes from property taxes, specific ownership taxes and state equalization.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those service costs. Table 5 shows, for governmental activities, the total cost of services and net cost of services. That is, it identifies the cost of these services supported by the per pupil charter school allocation.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

For the Year Ended June 30, 2017

Table 5
Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	\$1,242,748	\$ 628,865	\$1,155,049	\$ 592,197
Students	316,623	252,606	119,535	(40,564)
Instructional staff	47,686	13,679	47,686	13,679
General administration	39,930	38,194	39,930	38,194
School administration	664,262	396,704	528,702	243,460
Business	139,096	71,157	133,907	71,157
Operations and maintenance of plant	68,061	67,322	68,061	67,322
Student transportation	16,142	20,432	16,142	20,432
Central	29,607	20,572	29,607	20,572
Facilities acquisition	33,576	29,868	(6,407)	(7,355)
Total	\$2,597,731	\$1,539,399	\$2,132,212	\$1,019,094

- The cost of all governmental activities during the year was \$2,597,731.
- Federal and state government subsidized certain programs with grants and contributions (\$465,519).
- However, most of the School's costs (\$1,039,585) were financed by per pupil charter school allocations.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School's major governmental funds include the General Fund, Governmental Designed-Purpose Grants Fund and the Capital Projects Fund under GASB 34 reporting requirements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$1,558,428 and expenditures of \$1,541,942.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

General Fund Budgetary Highlights

The School's budget process is consistent with current Colorado statutes that require a proposed budget be presented to the Board of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through December 31st of each year. The most significant budgeted fund is the General Fund.

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

- Increases in appropriations were primarily the result of additional information that was obtained after the time the original budget was prepared.
- Actual expenditures, were \$39,824 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2017, the School has invested \$934,634 in buildings.

Table 6 shows capital assets for 2017 compared to 2016:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2017	2016
Buildings	\$ 934,634	\$ 898,091
Accumulated Depreciation	(320,327)	(288,998)
Total	<u>\$ 614,307</u>	<u>\$ 609,093</u>

Additional information on the School's capital assets can be found in Note 3 on page 26 of this report.

SOUTHWEST OPEN SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2017

FACTORS BEARING ON THE SCHOOL'S FUTURE

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

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School's citizens, taxpayers, parents, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Southwest Open School; 401 North Dolores Road; Cortez, Colorado 81321.

SOUTHWEST OPEN SCHOOL
Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Cash	\$ 1,313,531
Accounts receivable	1,160
Grants accounts receivable	28,642
Capital assets, net of depreciation	614,307
Total Assets	1,957,640
Deferred Outflows of Resources	
Pensions, net of amortization	2,032,730
Liabilities	
Due to school district	2,200
Accrued salaries and benefits payable	130,436
Grants deferred revenue	59,965
Noncurrent liabilities	
Net pension liability	5,304,608
Total Liabilities	5,497,209
Deferred Inflows of Resources	
Pensions, net of amortization	23,968
Net Position	
Net investment in capital assets	614,307
Restricted	
TABOR	45,000
Unrestricted	(2,190,114)
Total Net Position	\$ (1,530,807)

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Activities

For the Year Ended June 30, 2017

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue And Changes in Net Position</u>
				<u>Governmental Activities</u>
Governmental Activities				
Instructional Program Services	\$ 1,242,748	\$ 87,699		\$ (1,155,049)
Support Program Services				
Students	316,623	197,088		(119,535)
Instructional staff	47,686			(47,686)
General administration	39,930			(39,930)
School administration	664,262	135,560		(528,702)
Business	139,096	5,189		(133,907)
Operation and maintenance of plant	68,061			(68,061)
Student transportation	16,142			(16,142)
Central	29,607			(29,607)
Facilities acquisition	33,576		\$ 39,983	6,407
Total Governmental Activities	<u>2,597,731</u>	<u>425,536</u>	<u>39,983</u>	<u>(2,132,212)</u>
Total School	<u>\$ 2,597,731</u>	<u>\$ 425,536</u>	<u>\$ 39,983</u>	<u>(2,132,212)</u>
General Revenues				
Per pupil charter school allocation				1,039,585
Intergovernmental				
Public Lands				673
Impact Aid				33,529
Miscellaneous				19,122
Total General Revenues				<u>1,092,909</u>
Changes in Net Position				(1,039,303)
Net Position Beginning of the Year				(491,504)
Net Position End of the Year				<u>\$ (1,530,807)</u>

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Balance Sheet
Governmental Funds

June 30, 2017

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ 919,983		\$ 393,548	\$ 1,313,531
Due from other funds	(56,573)	\$ 57,023	(450)	-
Accounts receivable	1,160			1,160
Grants accounts receivable		28,642		28,642
Total Assets	<u>\$ 864,570</u>	<u>\$ 85,665</u>	<u>\$ 393,098</u>	<u>\$ 1,343,333</u>
Liabilities				
Due to school district	\$ 2,200			\$ 2,200
Accrued salaries and benefits payable	104,736	\$ 25,700		130,436
Grants deferred revenue		59,965		59,965
Total Liabilities	<u>106,936</u>	<u>85,665</u>		<u>192,601</u>
Fund Balances				
Restricted				
Tabor	45,000			45,000
Unrestricted				
Assigned for next year's expenditures	712,634		\$ 393,098	1,105,732
Total Fund Balances	<u>757,634</u>	<u>-</u>	<u>393,098</u>	<u>1,150,732</u>
Total Liabilities and Fund Balances	<u>\$ 864,570</u>	<u>\$ 85,665</u>	<u>\$ 393,098</u>	<u>\$ 1,343,333</u>

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

Total Fund Balance Governmental Funds \$ 1,150,732

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

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

Capital assets	\$ 934,634	
Accumulated depreciation	(320,327)	
	<u>614,307</u>	

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

Net pension obligation	(5,304,608)	
Deferred outflows of resources related to pensions - net	2,032,730	
Deferred inflows of resources related to pensions - net	(23,968)	
	<u>(3,295,846)</u>	

Total Net Position Governmental Activities \$ (1,530,807)

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Governmental Designated- Purpose Grants Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Per pupil charter school allocation	\$ 1,039,585			\$ 1,039,585
Local and Intermediate sources	19,255	\$ 71,929	\$ 540	91,724
State sources	10,932	334,528	39,983	385,443
Federal sources	41,676			41,676
Total Revenues	1,111,448	406,457	40,523	1,558,428
Expenditures				
Instructional Program	584,313	68,620		652,933
Support Programs				
Students	40,827	197,088		237,915
Instructional staff	10,092		37,594	47,686
General administration	39,930			39,930
School administration	206,955	135,560		342,515
Business	65,562	5,189		70,751
Operation and maintenance of plant	55,271		10,402	65,673
Student transportation	12,391		3,751	16,142
Central	29,607			29,607
Facilities acquisition			38,790	38,790
Total Expenditures	1,044,948	406,457	90,537	1,541,942
Excess revenues over (under) expenditures	66,500	-	(50,014)	16,486
Net Change in Fund Balances	66,500	-	(50,014)	16,486
Fund Balances beginning of the year	691,134	-	443,112	1,134,246
Fund Balances end of the year	\$ 757,634	\$ -	\$ 393,098	\$ 1,150,732

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2017

Net Change in Fund Balances Governmental Funds \$ 16,486

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

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

Depreciation expense	\$ (31,329)	
Capital outlay	36,543	
		5,214

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

Pension contributions	136,911	
Pension expense	(1,197,914)	
		(1,061,003)

Change in Net Position of Governmental Activities \$ (1,039,303)

The accompanying notes are an integral part of this statement

SOUTHWEST OPEN SCHOOL

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

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance Favorable
	Original	Final		(Unfavorable)
Revenues				
Local and Intermediate sources				
Per-pupil charter school allocation	\$ 1,048,517	\$ 1,020,528	\$ 1,039,585	\$ 19,057
Public Lands	993	993	673	(320)
Other		7,472	18,582	11,110
Total local sources	<u>1,049,510</u>	<u>1,028,993</u>	<u>1,058,840</u>	<u>29,847</u>
State sources				
Grants		19,251	10,932	(8,319)
Total state sources		<u>19,251</u>	<u>10,932</u>	<u>(8,319)</u>
Federal sources				
Impact Aid	27,600	28,711	33,529	4,818
Grants		7,817	8,147	330
Total federal sources	<u>27,600</u>	<u>36,528</u>	<u>41,676</u>	<u>5,148</u>
Total Revenues	<u>1,077,110</u>	<u>1,084,772</u>	<u>1,111,448</u>	<u>26,676</u>
Expenditures				
Instructional Program	572,731	624,588	584,313	40,275
Students	33,527	35,147	40,827	(5,680)
Instructional staff	10,355	10,160	10,092	68
General administration	44,843	38,780	39,930	(1,150)
School administration	195,445	202,856	206,955	(4,099)
Business	63,510	64,916	65,562	(646)
Operation and maintenance of plant	68,197	68,197	55,271	12,926
Student transportation	17,882	12,105	12,391	(286)
Central	25,336	28,023	29,607	(1,584)
Total Expenditures	<u>1,031,826</u>	<u>1,084,772</u>	<u>1,044,948</u>	<u>39,824</u>
Net Change in Fund Balances	45,284	-	66,500	66,500
Fund Balances beginning of the year	565,328	664,103	691,134	27,031
Appropriated reserves	(610,612)	(664,103)		664,103
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 757,634</u>	<u>\$ 757,634</u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Governmental Designated-Purpose Grants Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Grants	\$ 1,778	\$ 8,935	\$ 71,929	\$ 62,994
State sources				
Grants	272,735	425,497	334,528	(90,969)
Total Revenues	<u>274,513</u>	<u>434,432</u>	<u>406,457</u>	<u>(27,975)</u>
Expenditures				
Instructional Program	49,024	75,523	68,620	6,903
Students	83,337	223,368	197,088	26,280
School Administration	137,575	136,221	135,560	661
Business	5,257		5,189	(5,189)
Total Expenditures	<u>275,193</u>	<u>435,112</u>	<u>406,457</u>	<u>28,655</u>
Excess revenues over (under) expenditures	(680)	(680)	-	680
Fund Balances beginning of the year	680	680	-	(680)
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

1. Summary of Significant Accounting Policies

The financial statements of Southwest Open School ("School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements of Interpretations).

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

Reporting Entity – The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization has the potential to provide benefits to, or impose financial burdens on the School. Based on the application of this criteria, the school does not include additional organizations within its reporting entity.

The School is a discretely presented component unit of the Montezuma County (Cortez) School District RE-1 ("District"). The School's charter was granted by the District and most of the School's funding is provided by the District.

Government-wide and Fund Financial Statements –The government-wide financial statements (the statement of net position and the statement of activities) display information about the School as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

incurred, regardless of the timing of the related cash flow. On an accrual bases, grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the school considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

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

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

General Fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil funding from the District.

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

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

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments include investments with original maturities of three months or less. Investments are reported at fair value.

Due from the School District – Amounts that are due from the District are normal transactions that are paid in the next three months or less.

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

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

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value of the date donated. The School maintained a capitalization threshold of \$25,000 for major outlays for building and improvements. The School does not possess any infrastructure.

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

Depreciation of exhaustible capital assets is charged as an expense against operations in the statement of activities, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives; building and improvements 20-50 years and equipment 7 years.

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

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

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

Compensated Absences – The School's policy allows employees to accumulated sick leave. Upon termination of employment, no financial compensation is paid for unused sick day. Therefore, no liability for accumulated sick leave is reported in the financial statements.

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Federal and State Administered Grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

Fund Equity – The fund balance of the governmental funds is reported in classifications based on the extent to which the School is bound to honor constraints for the specific purposes on which amount in the fund can be spent as follows:

- Nonspendable fund balance represents assets that cannot be spent either because of their form or legally or contractually must be maintained intact.
- Restricted fund balance reflects resources that are subject to externally enforceable legal limitations.
- Committed fund balance is the portion that is limited to specific purposes determined by a formal action of the Board.
- Assigned fund balance displays the School's intended use of these resources.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balance consists of required TABOR reserves of \$45,000.

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

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

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

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

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

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

Prior to June 1, the Superintendent's staff submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.

The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain comments.

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

Formal budgetary integration is employed as a management control device during the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed by the School as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

2. Cash and Investments

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

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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.

At June 30, 2017, the carrying amount of the School's cash was \$1,313,531 in demand deposits. The School's bank balances of \$1,353,716 at June 30, 2017 and during the year ended June 30, 2017 were entirely covered by FDIC insurance or pledged collateral held by the School's agent banks in the name of governmental accounts of which the School is a part.

3. Capital Assets – Capital asset activity for the fiscal year ended June 30, 2017 follows:

	Capital Assets July 1, 2016	Additions	Deletions	Capital Assets June 30, 2017
Governmental Activities				
Capital Assets, being depreciated				
Buildings	\$ 898,091	\$ 36,543		\$ 934,634
Less Accumulated Depreciation				
Buildings	(288,998)	(31,329)		(320,327)
Governmental Activities Capital Assets, net	<u>\$ 609,093</u>	<u>\$ 5,214</u>	<u>\$ -</u>	<u>\$ 614,307</u>

4. Defined Benefit Pension Plan

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

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

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

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

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

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

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 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.

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:

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NOTES TO THE FINANCIAL STATEMENTS June 30, 2017

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

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$136,911 for the year ended June 30, 2017.

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

At June 30, 2017, the School reported a liability of \$5,304,608 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on the District's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the District's proportion was .0178163226 percent, which was an increase of .0015 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,061,003. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 66,316	\$ 47
Changes in assumptions	1,721,235	23,921
Net difference between projected and actual earnings on pension plan investments	177,375	
Contributions subsequent to the measurement date	67,804	
Total	\$ 2,032,730	\$ 23,968

\$67,804 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 776,814
2019	777,205
2020	385,169
2021	1,770

Actuarial assumptions. The total pension liability in the December 31, 2015 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
Discount rate	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07;	

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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

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

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

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

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

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NOTES TO THE FINANCIAL STATEMENTS

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31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

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

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

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

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

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

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed effective December 31, 2016 as follows:

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

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

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

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

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

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

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

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
Non U.S. Fixed Income Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
High Yield	1.38%	4.30%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Core Real Estate	8.50%	4.90%
Cash	1.00%	0.20%
Total	100.00%	

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

Discount rate. The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

Total covered payroll for the initial projection year consisted 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 years, total covered payroll was assumed to increase annually at a rate of 3.50%.

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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 future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

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

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

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

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

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS June 30, 2017

liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$5,357,654	\$5,304,608	\$5,251,562

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

5. Other Post-Employment Benefits

Health Care Trust Fund

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

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirement for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2015, 2016 and 2017, the School's employer contributions to the HCTF were \$8,182, \$7,173, and \$7,600, respectively, equal to their required contribution for each year.

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. Defined Contribution Pension Plan

Voluntary Investment Program

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

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The School has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2016, program members contributed \$8,900 to the Voluntary Investment Program.

7. **Accrued Salaries** – Certified instructors of the School are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract, but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling \$130,436, is reflected as an accrued expense at June 30.

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

Restricted

TABOR – indicates that a portion of the fund balance has been segregated for expenditures for declared emergencies only. Fund balance reserved for emergencies consists of \$45,000 in the General Fund.

Assigned

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

SOUTHWEST OPEN SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

General Fund	\$ 712,634
Capital Projects Fund	393,098
Total	<u><u>\$1,105,732</u></u>

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

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

In addition, the School participates in the Montezuma County (Cortez) School District RE-1 Self Insurance Fund to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of \$120,000, with a maximum aggregate benefit of \$1,000,000.

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

- 11. Commitments and Contingent Liabilities** – There were no commitments or contingent liabilities at June 30.

SOUTHWEST OPEN SCHOOL
Required Supplementary Information

June 30, 2017

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

Such information includes:

Schedule of School's Pension Contributions

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

SOUTHWEST OPEN SCHOOL
Schedule of Pension Contributions

June 30, 2017
Last 10 Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 136,911	\$ 125,215	\$ 135,600
Contributions in relation to the statutory required contribution	136,911	125,215	135,600
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 745,123	\$ 703,211	\$ 802,153
Contributions as a percentage of covered employee payroll	18.37%	17.81%	16.90%

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

SOUTHWEST OPEN SCHOOL
Schedule of the School's Proportionate Share of the Net Pension Liability

June 30, 2017
Last 10 Years*

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Proportionate Share of the Net Pension Liability			
School's proportionate share of the Net Pension Liability	0.01781632%	0.01624122%	0.01732241%
School's proportionate share of the Net Pension Liability	\$ 5,304,608	\$ 2,483,979	\$ 2,347,768
School's covered employee payroll	\$ 799,753	\$ 707,552	\$ 725,688
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	663.28%	351.07%	323.52%
Plan fiduciary net position as a percentage of the total pension liability	43.13%	59.20%	64.07%

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

SOUTHWEST OPEN SCHOOL
Other Supplementary Information

June 30, 2017

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

These statements and schedules include:

Budgetary Comparison Schedules
Capital Projects Fund

SOUTHWEST OPEN SCHOOL

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Projects Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Earnings of Investments			\$ 220	\$ 220
Other			320	320
Total local sources			<u>540</u>	<u>540</u>
State sources				
Grants	\$ 29,439	\$ 36,668	39,983	3,315
Total Revenues	<u>29,439</u>	<u>36,668</u>	<u>40,523</u>	<u>3,855</u>
Expenditures				
Support Programs				
Instructional staff			37,594	(37,594)
Operation and maintenance of plant			10,402	(10,402)
Transportation			3,751	(3,751)
Facilities acquisition	29,439	490,648	38,790	451,858
Total Expenditures	<u>29,439</u>	<u>490,648</u>	<u>90,537</u>	<u>400,111</u>
Net Changes in Fund Balances	-	(453,980)	(50,014)	403,966
Fund Balances beginning of the year	453,980	453,980	443,112	(10,868)
Appropriated reserves	(453,980)			-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,098</u>	<u>\$ 393,098</u>



Revenues, Expenditures, & Fund Balance by Location and Fund

Location (900- 969): 930

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	0	0	0	0
18 Risk Mgmt Sub-Fund of General Fund	0	11,811	11,811	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	0	11,811	11,811	0
11 Charter School Fund	691,134	1,099,636	1,033,137	757,634
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	406,457	406,457	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	443,112	40,522	90,537	393,098
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
Totals	1,134,247	1,558,426	1,541,941	1,150,732
Proprietary				
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	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	0	0	0	0

*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.