

Montrose County School District No. RE-1J

FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

January 12, 2018

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, 2017, 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 1.5 percent, 0 percent, and 20 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, 2017, 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
January 12, 2018

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-viii, 47-48, and 49-50, and the notes to the supplementary information on page 51, 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 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 January 12, 2018, 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, 2017

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, 2017. 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 and deferred inflows of the District exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$72.7 million (net position). This significant negative change was caused by the implementation of a change in accounting principle in a previous year 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 (\$104.6) 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 increased by \$23.8 million, resulting in an ending fund balance of \$38.0 million. This positive change is the result of the District voters approved on November 8, 2016, \$20.78 million bonds for the Columbine Middle School building project.
- During the current fiscal year, the fund balance in the District's General Fund increased by \$1,918,519. This was achieved through reprioritizing District programs and cost cutting measures.
- Not including the net pension liability, the District's long-term obligations increased by \$23.4 million a majority from the bond election and a 2017 computer lease for district wide student use. The increase was offset by payments on existing debt totaling \$1.034 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 3-46 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 like 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, deferred outflows, liabilities, and deferred inflows. The difference 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. Governmental activities also include the Employee Medical Benefit Fund which is a proprietary fund. The District does not have business-type activities.

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 governmental agencies, 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 Building 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 Redemption Fund, the Capital Lease Fund, and the Capital Projects Fund. Individual fund information for the non-major funds is presented as other supplementary 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 47-48 as required supplementary 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 supplementary information on pages 58-64. Non-governmental fund budgetary comparisons are reported on pages 65-66.

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 for a full understanding of the data provided in the basic financial statements. The notes can be found on pages 14-46 of this report.

Required Supplementary and Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required and other supplementary information concerning the District's non-major governmental funds and schedules required as part of the Colorado Public School Finance Act. Combined and individual fund statements and schedules can be found on pages 47-66 of this report. The additional schedules required as part of the Colorado Public School Finance Act can be found on pages 77-78 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 2017-2018. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after fiscal 2017-2018.

The liabilities and deferred inflows of the primary government activities exceed assets and deferred outflows by \$72.7 million with an unrestricted balance of (\$104.6 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 (\$187.0 million) on the District's financial statements.

A net investment of \$28.8 million in land, improvements, buildings, equipment, and vehicles that provide the services to the District's 6,260 public school students. Net position of \$1,666,063 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, 2017 and 2016

	Governmental Activities	
	2017	2016
Assets:		
Current assets	\$50,196,039	\$24,422,995
Capital assets	\$40,476,324	\$36,857,746
Total Assets	\$90,672,363	\$61,280,741
Deferred Outflows:		
Loss on refunding	\$275,181	\$339,929
Deferred pension outflows	\$72,106,700	\$12,963,843
Total Deferred Outflows	\$72,381,881	\$13,303,772
Total Assets and Deferred Outflows	\$163,054,244	\$74,584,513
Liabilities:		
Current liabilities	\$9,274,858	\$7,506,889
Noncurrent liabilities	\$221,036,210	\$111,917,176
Total Liabilities	\$230,311,068	\$119,424,065
Deferred Inflows:		
Deferred pension inflow	\$5,458,018	\$2,962,923
Net Position:		
Net investment in capital assets	\$28,821,416	\$27,938,292
Restricted	\$3,099,561	\$2,214,557
Unrestricted	-\$104,635,819	-\$77,955,324
Total Net Position	-\$72,714,842	-\$47,802,475
Total Liabilities, Deferred Inflows and Net Position	\$163,054,244	\$74,584,513

Comparative Schedule of Changes in Net Position
 Years ended June 30, 2017 and 2016

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues:		
Charges for services	\$8,955,984	\$ 8,683,390
Operating grants and contributions	\$10,088,706	9,391,505
Capital grants and contributions	\$996,929	90,920
General revenues;		
Property taxes	\$12,418,449	\$11,375,863
Specific ownership taxes	\$1,641,370	\$1,391,292
State equalization	\$31,297,905	\$30,571,618
Unrestricted investment earnings	\$107,489	\$155,855
Allocation to Charter Schools	(\$1,301,567)	(\$1,170,393)
Transfer	(\$186,627)	
Miscellaneous	\$28,785	\$47,186
Total Revenues	64,047,423	60,537,236
Expenses:		
Governmental activities:		
Instruction	56,515,838	39,037,011
Supporting services:		
Students	6,135,943	4,043,646
Instruction	4,309,820	3,089,147
General administration	1,288,420	859,001
School administration	5,028,646	3,372,849
Business	1,249,504	827,952
Plant operation and maintenance	7,392,382	5,458,662
Student transportation	1,755,440	1,726,927
Central Services	1,274,295	912,637
Nutritional Services	1,582,457	1,769,651
Other	126,455	192,922
Community services	124,962	144,153
Student activities	1,657,524	1,796,245
Debt issuance costs	156,377	-
Interest on long-term debt	361,727	259,402
Total Expenses	88,959,790	63,490,205
Change in Net Position	(24,912,367)	(2,952,969)
Net Position - July 1	(47,802,475)	(44,849,506)
Net Position - June 30	\$(72,714,842)	\$(47,802,475)

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

- State equalization aid increased by \$726,287 (2.4 percent) during the fiscal year, with property taxes increasing by \$1,042,586 (9.16 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 \$2,018,951 (4.67 percent). Student enrollment for the 2016-2017 school year, showed an increase of 87.0 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, \$636,953 was due to student count growth. The increase in the property taxes was due to an increase in property values from an improving economy.
- 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 \$5.6 million in fiscal year 2016-2017.
- Operating grants for governmental activities increased by \$697,201 due to the increase in availability of private, state and federal grants.
- Capital grants and contributions for governmental activities increased by \$906,009. The majority of this increase is from the BEST Grant for the Columbine Middle School project.
- Total governmental activities expenses increased by \$25.47 million. Most of that increase relates to the way pension expenses are recorded as a result of GASB 68. In years previous to the adoption of GASB 68, pension expense was equal to the amount the District was legally obligated to contribute at the established statutory amount. Pension expense is now calculated based on the District's share of the change in PERA NPL which includes many more factors such as changes in investment earnings that affect the NPL. PERA expenses also increased as a result of higher actual PERA payments made by the District related to a higher salary base and an increase in the blended employer contribution rate from 18.4% for fiscal year 2015-2016 to 19.3% for fiscal year 2016-2017.

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, 2017, the combined general fund shows an ending fund balance of \$9,920,113 an increase of \$1,918,519 from the fund balance of \$8,001,594 for the prior year.

In recap, as of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$38.0 million, an increase of \$23.8 million in comparison with the prior year. \$21.65 million in the Building is the result of voter approved bond election; \$1.92 million is the result of increase revenues and reductions in expense related items in the General Fund; (\$11,327) is the result of decreasing reserves in the Nutritional Services Fund due to increased costs.; \$188,410 is the result of increasing reserves in the Student Activity fund; (\$40,397) is the result of transfer out of the Fee in Lieu Fund; \$831,859 is the result of increasing reserves in the Bond Redemption Fund; and (\$680,47) is the result of decreasing reserves in the Capital Projects Fund, mostly due to Olathe Storm Water Project.

The unassigned fund balance for the District at the end of the fiscal year consists of the unassigned balance for the General Fund of \$6.94 million. The School Board took formal action in 2012 to create an emergency reserve of \$3 million (see Note A(4)(k), which is a part of the \$6.94 million unassigned balance. The remainder of the fund balance is either in non-spendable form (i.e. inventories), restricted, committed, or assigned to indicate that it is not available for new spending. Fund balance is restricted 1) to pay debt service (\$1,666,063), and 2) restricted for TABOR amendment (\$1.43 million). Fund Balance is committed 1) funds

raised for the food nutritional program (\$286,898); 2) funds raised for student activities/athletics (\$1,143,412); 3) to pay for capital projects (\$23 million); 4) to liquidate employee retirement benefits (\$268,224). Fund balance is assigned 1) to pay for the school based health center (\$247,716); and 2) reserved for insurance in the Insurance Fund which is a sub-fund of the General Fund (\$888,199).

General Fund Budgetary Highlights

Montrose County School District RE-1J began budget development for the 2016-2017 fiscal year in December 2015 with discussions related to labor negotiations as well as the impact of Amendment 23.

A 2015-2016 mid-year analysis was completed in February 2016 established the base of expenditure assumptions for 2016-2017. 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, 2016 and formally presented and adopted at the June 28, 2016 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.

The District's budget development process is consistent with current Colorado statutes that require a proposed budget be presented to Boards of Education on or before 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

The District's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$40,476,324 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, equipment and vehicles, and projects in progress. The total increase in the District's investment in capital assets for the current fiscal year was \$3,618,578, or a 9.82% increase for governmental activities.

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

- District wide roofing replacement.
- Columbine Middle School construction project
- 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, 2017 and 2016

	Governmental Activities	
	2017	2016
Land	\$1,538,075	\$ 1,538,075
Construction in Progress	3,313,211	123,911
Improvements	4,856,174	3,539,377
Buildings	28,667,441	29,757,752
Equipment	2,101,423	1,898,631
Total Capital Assets	\$ 40,476,324	\$ 36,857,746

Additional information on the District's capital assets can be found in Note F on pages 28-30.

At June 30, 2017, the District had total bonded debt outstanding of \$28,524,281, backed by the full faith and credit of the District. The District has debt outstanding for capital lease agreements in the amount of \$3,797,532. Additionally, the District has compensated absences payable for \$1,487,903, and retirement bonus benefits payable of \$140,105.

General obligation Bonds, Employee Benefits, and Capital Leases
June 30, 2017 and 2016

Governmental Activities		
	2017	2016
General Obligation Bonds	\$28,524,281	\$ 5,177,674
2012 Lease Purchase Agreement	2,586,273	2,766,966
2016 Apple Lease Agreement	731,095	974,813
2017 Apple Lease Agreement	480,164	-
Compensated absences	1,487,903	1,453,561
Retirement Bonus benefits	140,105	134,883
Total long-term obligations	\$ 33,949,821	\$ 10,507,897

Additional information on the District’s long-term obligations can be found in Note G on pages 30-34 of this report.

Economic Factors and Next Year’s Budget and Rates

For 2017-2018, the inflation rate still continues to be around 1.5 percent. The District budgeted for \$8,505 State per-pupil funding, which is an increase of 3.3 percent over the 2016-2017 funding. This increase will provide an additional \$231 per full time student to the District in fiscal year 2017-2018. However, the state established a Negative Factor in the amount of 11.6% of total program funding (\$5,557,000). This negative factor has been budgeted as a reduction in State revenue for the 2017-2018 fiscal year.

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. Passage Charter closed their doors on June 30, 2017, their final financial report, a component unit which has separately issued financial statements, can be obtained by contacting Montrose County School District at (970) 249-7726. 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:

Adam Rogers, Director of Finance
Montrose County School District RE-1J
930 Colorado Avenue
PO Box 10,000
Montrose, Colorado 81402
adam.rogers@mcsd.org

Montrose County School District No. RE - 1J

STATEMENT OF NET POSITION

June 30, 2017

	Primary Government	Component Units	
	Governmental Activities	Passage Charter School	Vista Charter School
ASSETS			
Cash and cash equivalents	\$ 12,389,885	\$ 114,208	\$ 455,340
Investments	32,630,520	-	1,692,708
Receivables			
Taxes	694,747	-	-
Accounts	490,404	-	-
Intergovernmental	3,585,787	-	-
Due from primary government	-	-	70,716
Due from component units	99,252	-	-
Due from fiduciary fund	505	-	-
Inventories	304,189	-	-
Prepaid expenses	-	-	21,000
Capital assets			
Nondepreciable	4,851,286	-	595,320
Depreciable, net of accumulated depreciation	35,625,038	-	4,652,327
Total assets	90,671,613	114,208	7,487,411
DEFERRED OUTFLOWS			
Loss on refunding, current portion	64,749	-	-
Loss on refunding, long term portion	210,432	-	-
Deferred outflows related to pension	72,106,700	46,340	1,529,469
Total deferred outflows	72,381,881	46,340	1,529,469
LIABILITIES			
Accounts payable	2,298,301	22,694	19,480
Accrued salaries and benefits	5,082,313	10,166	124,913
Due to primary government	-	81,348	-
Due to component units	88,620	-	-
Claims payable	565,033	-	-
Accrued interest payable	110,161	-	-
Unearned revenue	1,129,680	-	41,308
Noncurrent liabilities			
Due within one year	2,268,470	-	-
General obligation bonds	27,127,746	-	-
Capital lease agreements	3,206,508	-	-
Compensated absences payable	1,240,054	-	-
Retirement benefits	107,043	-	-
Net pension liability	187,086,389	-	3,958,607
Total liabilities	230,310,318	114,208	4,144,308
DEFERRED INFLOWS			
Deferred inflows related to pension	5,458,018	-	17,886
Total deferred inflows	5,458,018	-	17,886
NET POSITION			
Net investment in capital assets	28,821,416	-	5,247,647
Restricted			
Emergencies	1,433,498	-	43,709
Debt service	1,666,063	-	-
Capital renewal	-	-	40,000
Unrestricted	(104,635,819)	-	(476,670)
Total net position	\$ (72,714,842)	\$ -	\$ 4,854,686

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, 2017

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	\$ 56,515,839	\$ 6,642,398	\$ 5,143,857	\$ -	\$ (44,729,584)	\$ -	\$ -
Supporting services							
Students	6,135,943	145,286	2,175,297	-	(3,815,360)	-	-
Instruction	4,309,820	22	1,258,769	-	(3,051,029)	-	-
General administration	1,288,420	-	-	-	(1,288,420)	-	-
School administration	5,028,646	-	-	-	(5,028,646)	-	-
Business	1,249,504	-	-	-	(1,249,504)	-	-
Plant operations and maintenance	7,392,382	5,592	-	996,929	(6,389,861)	-	-
Student transportation	1,755,440	27,840	304,724	-	(1,422,876)	-	-
Central services	1,274,295	-	-	-	(1,274,295)	-	-
Nutritional services	1,582,457	279,942	1,185,932	-	(116,583)	-	-
Other	126,455	12,393	-	-	(114,062)	-	-
Community services	124,962	3,447	1,549	-	(119,966)	-	-
Student activities	1,657,524	1,839,064	18,578	-	200,118	-	-
Debt issuance costs	156,377	-	-	-	(156,377)	-	-
Interest on long-term debt	361,727	-	-	-	(361,727)	-	-
Total governmental activities	<u>88,959,790</u>	<u>8,955,984</u>	<u>10,088,706</u>	<u>996,929</u>	<u>(68,918,171)</u>	-	-
Total primary government	<u>\$ 88,959,790</u>	<u>\$ 8,955,984</u>	<u>\$ 10,088,706</u>	<u>\$ 996,929</u>	<u>(68,918,171)</u>		
Component units							
Passage Charter School	\$ 413,465	\$ 57,147	\$ 168,005	\$ 3,955		(184,358)	
Vista Charter School	2,073,073	139,523	96,270	41,423			(1,795,857)
Total component units	<u>\$ 2,486,538</u>	<u>\$ 196,670</u>	<u>\$ 264,275</u>	<u>\$ 45,378</u>			
General Revenue							
Property taxes					12,418,449	-	-
Specific ownership taxes					1,641,370	-	-
State equalization					31,297,905	135,831	1,169,897
Unrestricted investment earnings					107,489	-	10,408
Allocations to charter schools					(1,301,567)	-	-
Miscellaneous					28,785	87	-
Special Items							
Transfer of operations from Charter School					(186,627)	186,627	-
Total general revenues and allocations					<u>44,005,804</u>	<u>322,545</u>	<u>1,180,305</u>
Change in net position					(24,912,367)	138,187	(615,552)
Net position, beginning of year					(47,802,475)	(138,187)	5,470,238
Net position, end of year					<u>\$ (72,714,842)</u>	<u>\$ -</u>	<u>\$ 4,854,686</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, 2017

	General Fund	Designated Purpose Grants Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 7,363,695	\$ 12,050	\$ 8,993	\$ 4,213,195	\$ 11,597,933
Investments	5,254,083	27,868	23,262,961	1,320,828	29,865,740
Receivables					
Taxes	694,747	-	-	-	694,747
Accounts	52,245	-	-	419,897	472,142
Intergovernmental	477,853	2,596,917	511,017	-	3,585,787
Due from component units	99,252	-	-	-	99,252
Due from other funds	1,604,865	284,706	367,770	22,916	2,280,257
Inventories	136,365	-	-	167,824	304,189
Total assets	<u>\$ 15,683,105</u>	<u>\$ 2,921,541</u>	<u>\$ 24,150,741</u>	<u>\$ 6,144,660</u>	<u>\$ 48,900,047</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 460,828	\$ 262,850	\$ 994,249	\$ 572,677	\$ 2,290,604
Due to component units	88,620	-	-	-	88,620
Due to other funds	304,410	1,554,172	189,969	231,201	2,279,752
Accrued salaries and benefits	4,442,291	529,902	-	110,120	5,082,313
Unearned revenue	-	574,617	-	25,516	600,133
Total liabilities	<u>5,296,149</u>	<u>2,921,541</u>	<u>1,184,218</u>	<u>939,514</u>	<u>10,341,422</u>
Deferred inflows of resources					
Unavailable property tax revenues	116,843	-	-	18,543	135,386
Unavailable transportation revenues	<u>350,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,000</u>
Total deferred inflows of resources	466,843	-	-	18,543	485,386
Fund balances					
Non-spendable					
Inventories	136,365	-	-	167,824	304,189
Restricted					
Emergency reserve - TABOR	1,433,498	-	-	-	1,433,498
Debt service	-	-	-	1,666,063	1,666,063
Committed					
Debt service	-	-	-	139,215	139,215
Nutritional service	-	-	-	286,898	286,898
Student activities	-	-	-	1,143,412	1,143,412
Capital projects	-	-	22,966,523	1,783,191	24,749,714
Retirement	268,224	-	-	-	268,224
Assigned					
School based health centers	247,716	-	-	-	247,716
Insurance	888,199	-	-	-	888,199
Unassigned	6,946,111	-	-	-	6,946,111
Total fund balances	<u>9,920,113</u>	<u>-</u>	<u>22,966,523</u>	<u>5,186,603</u>	<u>38,073,239</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,683,105</u>	<u>\$ 2,921,541</u>	<u>\$ 24,150,741</u>	<u>\$ 6,144,660</u>	<u>\$ 48,900,047</u>

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, 2017

Total governmental funds balance		\$ 38,073,239
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of capital assets	\$ 81,834,222	
Less accumulated depreciation	<u>(41,357,898)</u>	40,476,324
Receivables that are not available soon enough to pay for the current year's expenditures are deferred in the funds.		485,387
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.		2,472,717
Items related to pensions are considered to be long term items and are therefore not reported in the funds.		
Net pension liability	(187,086,389)	
Deferred outflows related to pension	72,106,700	
Deferred inflows related to pension	<u>(5,458,018)</u>	(120,437,707)
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	(24,915,000)	
Premiums on general obligation bonds	(3,609,281)	
Capital lease agreements	(3,797,532)	
Compensated absences	(1,487,903)	
Retirement benefits payable	<u>(140,105)</u>	(33,949,821)
Losses on refunding are reported in the fund when first issued, but deferred and amortized in government-wide.		275,180
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>(110,161)</u>
Net position of governmental activities		<u><u>\$ (72,714,842)</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, 2017					
	General Fund	Designated Purpose Grants Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 12,339,833	\$ 550,673	\$ 89,154	\$ 4,132,279	\$ 17,111,939
Intermediate sources	43,670	-	-	60,010	103,680
State sources	33,503,108	1,359,436	752,219	29,052	35,643,815
Federal sources	514,257	4,283,677	-	1,235,762	6,033,696
Total revenues	46,400,868	6,193,786	841,373	5,457,103	58,893,130
Expenditures					
Current:					
Instructional	26,005,005	2,614,194	-	23,163	28,642,362
Supporting services	16,674,794	2,732,923	-	-	19,407,717
Community services	-	124,962	-	-	124,962
Student activities	-	-	-	1,657,524	1,657,524
Nutritional services	-	-	-	1,568,930	1,568,930
Capital outlay	556,306	731,814	3,506,001	765,630	5,559,751
Debt issuance costs	-	-	156,377	-	156,377
Debt service					
Principal	-	-	-	1,034,529	1,034,529
Interest & Fees	-	-	-	594,761	594,761
Total expenditures	43,236,105	6,203,893	3,662,378	5,644,537	58,746,913
Excess (deficiency) of revenues over (under) expenditures	3,164,763	(10,107)	(2,821,005)	(187,434)	146,217
Other financing sources (uses)					
Charter school allocations	(1,301,567)	-	-	-	(1,301,567)
Debt proceeds	480,164	-	20,775,000	-	21,255,164
Bond premium	-	-	3,397,906	-	3,397,906
Proceeds from sale of assets	-	-	-	12,898	12,898
Transfers from other funds	1,239,100	10,107	300,000	562,100	2,111,307
Transfers to other funds	(1,711,307)	-	-	(100,000)	(1,811,307)
Total other financing sources (uses)	(1,293,610)	10,107	24,472,906	474,998	23,664,401
Special item					
Transfer of operations from Passage Charter School	47,366	-	-	-	47,366
Change in fund balance	1,918,519	-	21,651,901	287,564	23,857,984
Fund balance, beginning of year	8,001,594	-	1,314,622	4,899,039	14,215,255
Fund balance, end of year	\$ 9,920,113	\$ -	\$ 22,966,523	\$ 5,186,603	\$ 38,073,239

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, 2017

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	23,857,984
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	\$	5,559,750
Depreciation expense	<u>(2,019,645)</u>	3,540,105
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 decreased.		(132,341)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, or donations) is to increase net position		78,473
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	(29,029,349)	
Increase in compensated absences payable	(34,343)	
Increase in retirement benefits payable	<u>(5,222)</u>	(29,068,914)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,034,411
Issuance of new debt is recognized as other financing sources in the funds, but increases long-term liabilities in the statement of net position.		(24,653,070)
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.		(81,601)
Premiums and debt issuance costs on previously-issued bonds are amortized in the statement of activities.		
Amortization of bond premium		216,300
Amortization of loss on refunding		(64,749)
The change in net position of the internal service fund is reported with governmental activities in the statement of activities.		361,035
Change in net position of governmental activities	<u>\$</u>	<u>(24,912,367)</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, 2017

		Governmental Activities
		Internal Service Fund
		<u> </u>
ASSETS		
Current assets		
Cash and cash equivalents		\$ 791,952
Investments		2,764,780
Accounts receivable		18,262
	Total assets	<u>3,574,994</u>
 LIABILITIES		
Current liabilities		
Accounts payable		7,697
Claims payable		565,033
Unearned revenue		529,547
	Total liabilities	<u>1,102,277</u>
 NET POSITION		
Unrestricted		<u>2,472,717</u>
	Total net position	<u><u>\$ 2,472,717</u></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, 2017

	Governmental Activities
	<u>Internal Service Fund</u>
Operating revenues	
Premiums	\$ 6,613,604
	<u>6,613,604</u>
Total operating revenues	6,613,604
Operating expenses	
Purchased services	782,403
Claims	5,177,937
	<u>5,960,340</u>
Total operating expenses	5,960,340
Operating income (loss)	653,264
Non-operating revenues	
Interest income	7,771
	<u>7,771</u>
Total non-operating revenue	7,771
Contributions and transfers	
Transfers to other funds	(300,000)
	<u>(300,000)</u>
Change in net position	361,035
Net position, beginning of year	2,111,682
	<u>2,111,682</u>
Net position, end of year	<u>\$ 2,472,717</u>

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, 2017

	Governmental Activities Internal Service Fund <u>Employee Medical Benefit</u>
Cash flows from operating activities	
Cash received from insurance premiums	\$ 6,579,616
Cash paid to suppliers	(782,972)
Cash paid for insurance claims	<u>(5,289,614)</u>
Net cash provided by operating activities	507,030
Cash flows from noncapital financing activities	
Transfers to other funds	<u>(300,000)</u>
Net cash (used in) noncapital financing activities	(300,000)
Cash flows from investing activities	
Purchase of investments	(2,199,367)
Interest income	<u>7,771</u>
Net cash (used in) investing activities	<u>(2,191,596)</u>
Net increase (decrease) in cash and cash equivalents	(1,984,566)
Cash and cash equivalents, beginning of year	<u>2,776,518</u>
Cash and cash equivalents, end of year	<u><u>\$ 791,952</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 653,264
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	(18,235)
Increase(decrease) in accounts payable	(569)
Increase (decrease) in claims payable	(111,677)
Increase (decrease) in unearned revenue	<u>(15,753)</u>
Total adjustments	<u>(146,234)</u>
Net cash used by operating activities	<u><u>\$ 507,030</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, 2017

ASSETS	
Cash	\$ 71,752
Investments	1,280,258
Rental property	<u>10,000</u>
Total assets	1,362,010
LIABILITIES	
Due to other funds	505
Scholarships payable	<u>218,310</u>
Total liabilities	218,815
NET POSITION	
Permanently restricted	885,400
Restricted for scholarships	<u>257,795</u>
Total net position	<u><u>\$ 1,143,195</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, 2017

Additions	
Earnings on deposits and investments	\$ 4,212
Contributions	63,867
Rental income	<u>8,295</u>
Total additions	76,374
Deductions	
Scholarships awarded	65,156
General and administrative	<u>1,135</u>
Total deductions	<u>66,291</u>
Change in net position	10,083
Net position, beginning of year	<u>1,133,112</u>
Net position, end of year	<u><u>\$ 1,143,195</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, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Montrose County School District No. RE-1J (District) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units and the Financial Policies and Procedures Handbook as prescribed by Colorado 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. Passage Charter School closed after the end of the 2016-2017 school year.

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, 2017

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, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements - Continued

- The *Building Fund* accumulates resources to be used for construction of large projects and large repairs to District facilities.

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 Capital Lease Fund, and the Capital Projects 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 Capital Lease and Bond Funds account for the payment of principal and interest on long-term debt of the District. The Capital Projects Fund accumulates resources to be used for capital purchases and repairs.

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, 2017

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, 2017

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. 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.

c. 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.

d. 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, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

e. 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

f. 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 and other collective pension amounts attributable to the District.

g. 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, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

h. Accrued Salaries

Salaries and benefits to teachers and certain other employees are paid over a 12-month period 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.

i. 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 and other collective pension amounts attributable to the District.

k. Fund Balance/Net Position

Under GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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, 2017

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, 2017

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 accordance 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, 2017

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, 2017 are as follows:

	Original <u>Budget</u>	<u>Supplemental</u>	Final <u>Budget</u>
General Fund	\$ 47,991,500	\$ –	\$ 47,991,500
Insurance Reserve Fund	839,175	3,000	842,175
Special Revenue Funds:			
Nutritional Service Fund	1,642,100	–	1,642,100
Designated Grants Fund	5,507,500	701,000	6,208,500
Student Activity Fund	1,900,000	–	1,900,000
Fee-In-Lieu Fund	–	110,000	110,000
Bond Redemption Fund	785,300	418,000	1,203,300
Capital Lease	498,500	1,000	499,500
Building Fund	1,100,000	36,664,928	37,764,928
Capital Projects Fund	20,000	1,066,049	1,086,049
Employee Medical Benefit			
Internal Service Fund	6,702,200	–	6,702,200
Scholarship Trust Fund	57,000	10,000	67,000
Total	<u>\$ 67,043,275</u>	<u>\$ 38,973,977</u>	<u>\$ 106,017,252</u>

Following is a summary of the Charter School's budget and actual expenditures for the year ended June 30, 2017:

	<u>Passage</u>	<u>Vista</u>
Actual Expenditures (Budgetary Basis)	\$ 397,072	\$ 1,268,859
Budgeted Expenditures	403,548	1,209,497
Variance – Favorable (Unfavorable)	<u>\$ 6,476</u>	<u>\$ (59,362)</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B – BUDGETARY INFORMATION – CONTINUED

Actual Vista Charter School general fund expenditures of \$1,268,859 exceeded final appropriated funds of \$1,209,497 by \$59,362 which is contrary to Colorado State Statute.

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, 2017 for TABOR is \$1,433,498. 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, 2017, the carrying amount of the District's deposits was \$12,641,612 and the bank balance was \$13,816,907. Of that balance \$1,002,451 was covered by FDIC insurance and \$12,814,456 was collateralized.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

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.

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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

2. Investments - Continued

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. COLOTRUST is rated AAAM from Standard and Poor's. Financial statements for COLOTRUST may be obtained at www.colotruster.com. Investments held in money market funds are not rated.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. COLOTRUST operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by COLOTRUST are valued at fair market value.

The composition, including level under the GASB 72 fair value hierarchy, where applicable, of all cash and investments held by the District as of June 30, 2017 is as follows:

	<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	\$ 28,007	\$ 28,007	\$ -
Money Market Funds with Brokers	76,389	76,389	-
COLOTRUST, AA+ Rated	19,442,361	19,442,361	-
Negotiable Certificate of Deposit	2,265,783	-	2,265,783
Commercial Paper (Level 1)	9,932,515	9,932,515	-
Government Bonds, AA+ Rated (Level 1)	1,735,195	-	1,735,195
Taxable Bonds, Not Rated (Level 1)	249,875	-	249,875
Total Investments	<u>\$ 33,730,125</u>	<u>\$ 29,479,272</u>	<u>\$ 4,250,853</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

Cash and investments, as classified on the June 30, 2017 statement of net position, are as follows:

Cash on Hand	\$	1,455
Deposits		12,641,612
Investments		<u>33,730,125</u>
Total Cash and Investments	\$	<u>46,373,192</u>

Statement of Net Position:

Cash	\$	12,390,662
Investments		<u>32,630,520</u>
Total		<u>45,021,182</u>

Statement of Fiduciary Net Position:

Cash		71,752
Investments		<u>1,280,258</u>
Total		<u>1,352,010</u>
Total Cash and Investments	\$	<u>46,373,192</u>

Cash and investments of the charter schools consist of the following as of June 30, 2017:

	<u>Passage</u>	<u>Vista</u>
Deposits:		
Carrying Amount	<u>\$ 114,208</u>	<u>\$ 1,396,047</u>
Bank Balances	113,929	1,502,265
Insured	<u>(113,929)</u>	<u>(1,190,707)</u>
Collateralized	<u>\$ —</u>	<u>\$ 311,558</u>
Investments:		
COLOTRUST		<u>\$ 751,532</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:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E – INTERFUND BALANCES AND TRANSFERS – CONTINUED

Fund	Due From	Due To
General Fund	\$ 1,604,865	\$ 303,885
Insurance Reserve Fund	–	525
Special Grants Fund	284,706	1,554,172
Student Activities Fund	389	–
Bond Redemption Fund	–	5,724
Building Fund	367,770	189,969
Capital Reserve Fund	22,527	225,477
Scholarship Fund	–	505
Total	\$ 2,280,257	\$ 2,280,257

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

Fund	Due From	Due To
General Fund	\$ 99,252	\$ 88,620
Vista Charter School	88,620	17,904
Passage Charter School	–	81,348
Total	\$ 187,872	\$ 187,872

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. A transfer of net position of \$186,627 from Passage Charter School to the District occurred due to the closing of Passage Charter School. Interfund transfers consist of the following:

	Transfers In	Transfers Out
General Fund	\$ 400,000	\$ 1,711,307
Insurance Reserve Fund	839,100	–
Special Grants Fund	10,107	–
Fees In Lieu Fund	–	100,000
Building Fund	300,000	–
Capital Projects Fund	63,600	–
Capital Lease Fund	498,500	–
Employee Medical Benefit Fund	–	300,000
Total	\$ 2,111,307	\$ 2,111,307

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, 2017:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – CAPITAL ASSETS – CONTINUED

Governmental Activities:	Balance			Balance
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Non-depreciable:				
Land	\$ 1,538,075	\$ –	\$ –	\$ 1,538,075
Construction in Progress	<u>123,911</u>	<u>3,189,300</u>	<u>–</u>	<u>3,313,211</u>
Total non-depreciable capital assets	1,661,986	3,189,300	–	4,851,286
Depreciable capital assets:				
Improvements	6,632,648	1,666,278	–	8,298,926
Buildings	62,039,251	75,785	(174,405)	61,940,631
Equipment	<u>6,036,519</u>	<u>706,860</u>	<u>–</u>	<u>6,743,379</u>
Total depreciable capital assets	<u>74,708,418</u>	<u>2,448,923</u>	<u>(174,405)</u>	<u>76,982,936</u>
Accumulated depreciation:				
Improvements	(3,093,271)	(349,481)	–	(3,442,752)
Buildings	(32,281,499)	(1,166,096)	174,405	(33,273,190)
Equipment	<u>(4,137,888)</u>	<u>(504,068)</u>	<u>–</u>	<u>(4,641,956)</u>
Total accumulated depreciation	<u>(39,512,658)</u>	<u>(2,019,645)</u>	<u>174,405</u>	<u>(41,357,898)</u>
Net depreciable capital assets	<u>35,195,760</u>	<u>429,278</u>	<u>–</u>	<u>35,625,038</u>
Total net capital assets	<u>\$ 36,857,746</u>	<u>\$ 3,618,578</u>	<u>\$ –</u>	<u>\$ 40,476,324</u>
Charter Schools:				
	Balance			Balance
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Passage:				
Building	\$ 363,286	\$ –	\$ (363,286)	\$ –
Equipment	22,111	–	(22,111)	–
Accumulated depreciation	<u>(290,531)</u>	<u>(16,393)</u>	<u>306,924</u>	<u>–</u>
Net depreciable capital assets	<u>\$ 94,866</u>	<u>\$ (16,393)</u>	<u>\$ (78,473)</u>	<u>\$ –</u>
Vista:				
Land	\$ 595,320	\$ –	\$ –	\$ 595,320
Total non-depreciable capital assets	595,320	–	–	595,320
Building	5,174,937	14,500	–	5,189,437
Equipment and vehicles	116,087	10,200	–	126,287
Accumulated depreciation	<u>(511,295)</u>	<u>(152,102)</u>	<u>–</u>	<u>(663,397)</u>
Net depreciable capital assets	<u>4,779,729</u>	<u>(127,402)</u>	<u>–</u>	<u>4,652,327</u>
Net non-depreciable and depreciable capital assets	<u>\$ 5,375,049</u>	<u>\$ (127,402)</u>	<u>\$ –</u>	<u>\$ 5,247,647</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – CAPITAL ASSETS – CONTINUED

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

Depreciation charges to programs	
<u>Governmental Activities:</u>	
Instruction	\$ 1,758,438
Supporting Services:	
Students	153,395
General Administration	41,302
School Administration	14,073
Business	11,255
Plant Operations and Maintenance	27,655
Nutritional Services	13,527
Total	<u>\$ 2,019,645</u>
<u>Charter Schools:</u>	
Passage Charter School	\$ 16,393
Vista Charter School	152,102
Total	<u>\$ 168,495</u>

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 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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G – LONG-TERM OBLIGATIONS – CONTINUED

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.

On January 24, 2017 the District issued general obligation bonds, Series 2017, with a par value of \$20,775,000 and a premium of \$3,397,906. These bonds were issued to construct, repair, and improve District capital assets. The bonds carry a variable interest rate ranging from 2.00% to 5.00% and mature on December 1, 2036. Principal and interest payments are made semiannually in June and December. The District has an underlying rating by Moody’s of “Aa3” for the 2017 bonds.

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

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2018	960,000	1,127,738	2,087,738
2019	845,000	1,096,938	1,941,938
2020	875,000	1,065,538	1,940,538
2021	910,000	1,031,863	1,941,863
2022	945,000	996,863	1,941,863
2023-2027	5,270,000	4,408,606	9,678,606
2028-2032	6,635,000	2,980,625	9,615,625
<u>2033-2037</u>	<u>8,475,000</u>	<u>1,100,625</u>	<u>9,575,625</u>
Total	<u>\$ 24,915,000</u>	<u>\$ 13,808,796</u>	<u>\$ 38,723,796</u>

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 2017 totaled \$246,042. Of that total, \$180,693 was principal, and \$65,349 was interest.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G – LONG-TERM OBLIGATIONS – CONTINUED

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 during fiscal year 2017 totaled \$252,966 consisting of \$243,718 principal and \$9,248 interest. On December 13, 2016, the District purchased more equipment and added an additional principal amount of \$480,164, with an effective interest rate of 2.69%, to the existing master lease. Payments, which include both principal and interest, occur at annual intervals. Amortization expense on the leased assets is included in depreciation expense.

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,			
2018	591,024	81,223	672,247
2019	605,016	74,183	679,199
2020	622,077	56,010	678,087
2021	219,760	50,582	270,342
2022	232,424	40,868	273,292
2023-2027	1,370,491	112,918	1,483,409
2028	<u>156,738</u>	<u>1,881</u>	<u>158,619</u>
Total	<u>\$ 3,797,530</u>	<u>\$ 417,665</u>	<u>\$ 4,215,195</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.

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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G – LONG-TERM OBLIGATIONS – CONTINUED

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>	
2018	\$ 33,062
2019	39,550
2020	30,516
2021	23,999
2022	12,978
Total	<u>\$ 140,105</u>

5. Changes in Long-Term Debt

During the period ended June 30, 2017, the following changes occurred in the District's long-term obligations:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G – LONG-TERM OBLIGATIONS – CONTINUED

Governmental Activities:

	Balance <u>July, 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>	<u>Current</u>
General Obligation					
Bonds, Series 2011	\$ 4,750,000	\$ –	\$ (610,000)	\$ 4,140,000	\$ 630,000
Premium on Series 2011	427,674	–	(58,990)	368,684	58,990
Bond, Series 2017	–	20,775,000	–	20,775,000	330,000
Premium on Series 2017	–	3,397,906	(157,309)	3,240,597	377,545
Total GO Bonds	<u>5,177,674</u>	<u>24,172,906</u>	<u>(826,299)</u>	<u>28,524,281</u>	<u>1,396,535</u>
2012 Capital Lease	2,766,966	–	(180,693)	2,586,273	191,862
Apple Lease 2016	974,813	–	(243,718)	731,095	239,150
Apple Lease 2017	–	480,164	–	480,164	160,012
Total Capital Leases	<u>3,741,779</u>	<u>480,164</u>	<u>(424,411)</u>	<u>3,797,532</u>	<u>591,024</u>
Retirement Bonuses	134,883	76,221	(70,999)	140,105	33,062
Compensated Absences	1,453,561	34,342	–	1,487,903	247,849
Totals	<u>\$ 10,507,897</u>	<u>\$ 24,763,633</u>	<u>\$ (1,321,709)</u>	<u>\$ 33,949,821</u>	<u>\$ 2,268,470</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, 2017

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.

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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

Contributions. Eligible employees and the 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, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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 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, 2017 were as follows:

Passage	\$	30,047
Vista		108,078
MCSD		5,083,052
District Total	\$	<u>5,221,177</u>

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

At June 30, 2017, the District reported a liability of \$187,086,389 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-wide proportion was .6417%, which was a decrease of .03778% from its proportion measured as of December 31, 2015. The District allocated 2.07% of that total to Vista Charter School, based on their share of PERA employer contributions paid through the District. Passage Charter School closed at the end of fiscal year 2017 and the majority of its employees were hired by the District at that time. Therefore, the District's net pension liability as of June 30, 2017 includes the Passage Charter School portion.

Allocation of Net Pension Liability (NPL)

<u>Entity</u>	<u>NPL</u>	<u>% of District Total</u>
District Only	\$ 187,086,389	97.93%
Vista Charter	<u>3,958,607</u>	<u>2.07%</u>
District-Wide Total	<u>\$ 191,044,996</u>	<u>100.00%</u>

For the year ended June 30, 2017, the recognized pension expense for the District and the component unit were as follows:

<u>Entity</u>	<u>Expense Amount</u>
School District Only	\$ 34,218,242
Vista Charter School	<u>784,890</u>
District-Wide Total	<u>\$ 35,003,132</u>

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,338,867	\$ 1,646
Changes of assumptions or other inputs	60,705,634	843,666
Net difference between projected and actual earnings on pension plan investments	6,255,779	–
Changes in proportion and differences between contributions recognized and proportionate share of contributions	136,745	4,612,706
Contributions subsequent to the measurement date	<u>2,669,675</u>	<u>–</u>
Total	<u>\$ 72,106,700</u>	<u>\$ 5,458,018</u>

The \$2,669,675 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:

<u>Year ended June 30,</u>	<u>Amortization</u>
2018	\$ 25,487,658
2019	25,546,822
2020	12,882,129
2021	<u>62,398</u>
	<u>\$ 63,979,007</u>

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

Actuarial cost method	Entry age
Price inflation	2.80 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
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 were 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 hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

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

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

<u>Asset Class</u>	<u>Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
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 7.25 percent.

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 method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.5 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.
- 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.

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – DEFINED BENEFIT PENSION PLAN – CONTINUED

The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

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 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:

Sensitivity of the NPL

Discount rate:	4.26%	5.26%	6.26%
District Only	235,255,122	187,086,389	147,854,699
Vista Charter	4,977,821	3,958,607	3,128,494
District-Wide Total	<u>\$ 240,232,943</u>	<u>\$ 191,044,996</u>	<u>\$ 150,983,193</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.

NOTE I – 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 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).

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

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. 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, 2017, 2016, and 2015, were \$287,410, \$289,609 and \$305,444 respectively, equal to the required contributions for each year.

NOTE J – 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 \$565,033, reported at June 30, 2017, 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:

Montrose County School District No. RE-1J

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE J – RISK MANAGEMENT – CONTINUED

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimate</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2015	\$ 500,000	\$ 4,882,598	\$ 4,850,598	\$ 532,000
2016	532,000	5,171,180	5,026,470	676,710
2017	676,710	5,066,260	5,177,937	565,033

NOTE K – 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 L – 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.

Required Supplementary Information

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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
General property tax	\$ 10,450,000	\$ 10,450,000	\$ 10,436,321	\$ (13,679)
Specific ownership tax	1,600,000	1,600,000	1,642,052	42,052
Penalties and interest on delinquent tax	47,000	47,000	26,308	(20,692)
Investment earnings	-	-	(718)	(718)
Other	98,630	98,630	235,870	137,240
Total local sources	12,195,630	12,195,630	12,339,833	144,203
Intermediate sources				
Forest service collection	40,000	40,000	43,345	3,345
Mineral leasing	6,800	6,800	(682)	(7,482)
Impact fees	2,900	2,900	1,007	(1,893)
Total intermediate sources	49,700	49,700	43,670	(6,030)
State sources				
Equalization	30,993,070	30,993,070	31,297,905	304,835
Exceptional Children's Educational Act	1,126,500	1,126,500	1,175,153	48,653
Transportation	402,600	402,600	374,724	(27,876)
Vocational education	113,600	113,600	165,159	51,559
English Language Proficiency Act	346,500	346,500	341,647	(4,853)
Gifted and Talented	59,600	59,600	56,778	(2,822)
Other	85,500	85,500	91,742	6,242
Total state sources	33,127,370	33,127,370	33,503,108	375,738
Federal sources				
Medicaid	386,300	386,300	372,180	(14,120)
NJROTC	60,000	60,000	76,965	16,965
SWAP	42,400	42,400	65,112	22,712
Total federal sources	488,700	488,700	514,257	25,557
Total revenues	45,861,400	45,861,400	46,400,868	539,468
Expenditures				
Current				
Instructional services	25,897,579	25,897,579	26,005,005	(107,426)
Supporting services				
Students	2,612,440	2,612,440	2,710,530	(98,090)
Instruction	1,820,921	1,820,921	1,880,294	(59,373)
General administration	690,093	690,093	716,604	(26,511)
School administration	2,758,709	2,758,709	2,751,944	6,765
Business	719,095	719,095	737,386	(18,291)
Plant operations maintenance	5,189,640	5,192,640	5,168,501	24,139
Student transportation	1,888,026	1,888,026	1,704,476	183,550
Central services	950,357	950,357	902,556	47,801
Other	22,240	22,240	38,299	(16,059)
Other uses	-	-	64,204	(64,204)
Capital outlay	1,000	1,000	556,306	(555,306)
Total current expenditures	42,550,100	42,553,100	43,236,105	(683,005)
Emergency reserve	1,320,000	1,320,000	-	1,320,000
Contingency reserve	3,000,000	3,000,000	-	3,000,000
Other	339,375	339,375	-	339,375
Total expenditures	47,209,475	47,212,475	43,236,105	3,976,370
Excess (deficiency) of revenues over (under) expenditures	(1,348,075)	(1,351,075)	3,164,763	4,515,838
Other financing sources (uses)				
Proceeds from capital lease	-	-	480,164	480,164
Charter school allocations	(1,170,700)	(1,170,700)	(1,301,567)	(130,867)
Transfer (to)/from other funds	(782,100)	(782,100)	(472,207)	309,893
Total other financing sources (uses)	(1,952,800)	(1,952,800)	(1,293,610)	659,190
Special item				
Transfer of assets from Passage Charter School	-	-	47,366	47,366
Change in fund balance	(3,300,875)	(3,303,875)	1,918,519	5,222,394
Fund balance, beginning of year	7,526,654	7,526,654	8,001,594	474,940
Fund balance, end of year	\$ 4,225,779	\$ 4,222,779	\$ 9,920,113	\$ 5,697,334

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, 2017

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources	\$ 256,900	\$ 456,900	\$ 550,673	\$ 93,773
State sources	1,182,800	1,182,800	1,359,436	176,636
Federal sources	4,067,800	4,568,800	4,283,677	(285,123)
Total revenues	5,507,500	6,208,500	6,193,786	(14,714)
Expenditures				
Current				
Instructional services	2,852,751	2,852,751	2,614,194	238,557
Supporting services				
Students	789,381	989,381	1,171,195	(181,814)
Instruction	1,484,704	1,484,704	1,432,419	52,285
General administration	13,500	13,500	11,973	1,527
School administration	140,500	140,500	91,180	49,320
Plant operations maintenance	-	-	560	(560)
Business	-	-	1,644	(1,644)
Other	300	300	23,952	(23,652)
Community services	113,864	113,864	124,962	(11,098)
Capital outlay	112,500	613,500	731,814	(118,314)
Total current expenditures	5,507,500	6,208,500	6,203,893	4,607
Other financing sources (uses)				
Transfers from other funds	-	-	10,107	10,107
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, 2017

	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%
December 31, 2016	0.62836%	187,086,389	27,643,098	677%	43%

Montrose County School District No. RE - 1J

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2017

	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%
June 30, 2017	5,298,573	5,298,573	-	28,177,402	19%

Montrose County School District No. RE-1J

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

NOTE 1 RSI – 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.
- 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.

During the year ended June 30, 2017, the General fund had additional supplemental appropriations of \$0, the Insurance Reserve fund had additional appropriations of \$3,000 and the Designated Grants Fund had additional appropriations of \$701,000.

NOTE 2 RSI – PENSIONS

Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26% based on the municipal bond index rate. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit plan, or assumptions used that significantly affect trends in the amounts reported.

Supplementary Information

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

June 30, 2017

	General Fund	Insurance Reserve Fund	Total
Assets			
Cash	\$ 6,479,127	\$ 884,568	\$ 7,363,695
Investments	5,254,017	66	5,254,083
Receivables			
Taxes	694,747	-	694,747
Accounts	52,245	-	52,245
Intergovernmental	477,853	-	477,853
Due from other funds	1,604,865	-	1,604,865
Due from component units	81,348	17,904	99,252
Inventories	136,365	-	136,365
	<u>\$ 14,780,567</u>	<u>\$ 902,538</u>	<u>\$ 15,683,105</u>
Total assets			
Liabilities, deferred inflows of resources, and fund balance			
Liabilities			
Accounts payable	\$ 447,014	\$ 13,814	\$ 460,828
Due to other funds	303,885	525	304,410
Due to component units	88,620	-	88,620
Accrued salaries and benefits	4,442,291	-	4,442,291
	<u>5,281,810</u>	<u>14,339</u>	<u>5,296,149</u>
Total liabilities			
Deferred inflows of resources			
Unavailable property tax revenues	116,843	-	116,843
Unavailable transportation revenues	350,000	-	350,000
	<u>466,843</u>	<u>-</u>	<u>466,843</u>
Total deferred inflows of resources			
Fund balances			
Nonspendable			
Inventory	136,365	-	136,365
Restricted			
Emergency Reserve - TABOR	1,433,498	-	1,433,498
Committed			
Retirement	268,224	-	268,224
Assigned			
School based health centers	247,716	-	247,716
Insurance	-	888,199	888,199
Unassigned	6,946,111	-	6,946,111
	<u>9,031,914</u>	<u>888,199</u>	<u>9,920,113</u>
Total fund balances			
Total liabilities, deferred inflows of resources, and fund balances			
	<u>\$ 14,780,567</u>	<u>\$ 902,538</u>	<u>\$ 15,683,105</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, 2017

	General Fund	Insurance Reserve Fund	Total
Revenues			
Local sources	\$ 12,339,785	\$ 48	\$ 12,339,833
Intermediate sources	43,670	-	43,670
State sources	33,503,108	-	33,503,108
Federal sources	514,257	-	514,257
	<u>46,400,820</u>	<u>48</u>	<u>46,400,868</u>
Total revenues			
Expenditures			
Current			
Instructional services	26,005,005	-	26,005,005
Supporting services	15,786,582	824,008	16,610,590
Other uses	64,204	-	64,204
Capital outlay	556,306	-	556,306
	<u>42,412,097</u>	<u>824,008</u>	<u>43,236,105</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	3,988,723	(823,960)	3,164,763
Other financing sources (uses)			
Charter school allocations	(1,301,567)	-	(1,301,567)
Proceeds from capital lease	480,164	-	480,164
Transfers from other funds	400,000	839,100	1,239,100
Transfers to other funds	(1,711,307)	-	(1,711,307)
	<u>(2,132,710)</u>	<u>839,100</u>	<u>(1,293,610)</u>
Total other financing sources (uses)			
Special item			
Transfer from Passage Charter School	47,366	-	47,366
	<u>47,366</u>	<u>-</u>	<u>47,366</u>
Change in fund balance	1,903,379	15,140	1,918,519
Fund balance, beginning of year	7,128,535	873,059	8,001,594
	<u>7,128,535</u>	<u>873,059</u>	<u>8,001,594</u>
Fund balance, end of year	<u>\$ 9,031,914</u>	<u>\$ 888,199</u>	<u>\$ 9,920,113</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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
General property tax	\$ 10,450,000	\$ 10,450,000	\$ 10,436,321	\$ (13,679)
Specific ownership tax	1,600,000	1,600,000	1,642,052	42,052
Penalties and interest on delinquent tax	47,000	47,000	26,308	(20,692)
Investment earnings	-	-	(722)	(722)
Other	98,630	98,630	235,826	137,196
Total local sources	12,195,630	12,195,630	12,339,785	144,155
Intermediate sources				
Forest service collection	40,000	40,000	43,345	3,345
Mineral leasing	6,800	6,800	(682)	(7,482)
Impact fees	2,900	2,900	1,007	(1,893)
Total intermediate sources	49,700	49,700	43,670	(6,030)
State sources				
Equalization	30,993,070	30,993,070	31,297,905	304,835
Exceptional Children's Educational Act	1,126,500	1,126,500	1,175,153	48,653
Transportation	402,600	402,600	374,724	(27,876)
Vocational education	113,600	113,600	165,159	51,559
English Language Proficiency Act	346,500	346,500	341,647	(4,853)
Gifted and Talented	59,600	59,600	56,778	(2,822)
Other	85,500	85,500	91,742	6,242
Total state sources	33,127,370	33,127,370	33,503,108	375,738
Federal sources				
Medicaid	386,300	386,300	372,180	(14,120)
NJROTC	60,000	60,000	76,965	16,965
SWAP	42,400	42,400	65,112	22,712
Total federal sources	488,700	488,700	514,257	25,557
Total revenues	45,861,400	45,861,400	46,400,820	539,420
Expenditures				
Current				
Instructional services	25,897,579	25,897,579	26,005,005	(107,426)
Supporting services				
Students	2,612,440	2,612,440	2,710,530	(98,090)
Instruction	1,820,921	1,820,921	1,880,294	(59,373)
General administration	690,093	690,093	716,604	(26,511)
School administration	2,758,709	2,758,709	2,751,944	6,765
Business	719,095	719,095	737,386	(18,291)
Plant operations maintenance	4,444,340	4,444,340	4,443,827	513
Student transportation	1,888,026	1,888,026	1,704,476	183,550
Central services	856,482	856,482	803,222	53,260
Food services	17,660	17,660	14,829	2,831
Community Services	1,380	1,380	1,299	81
Other	3,200	3,200	22,171	(18,971)
Other uses	-	-	64,204	(64,204)
Capital outlay	1,000	1,000	556,306	(555,306)
Total current expenditures	41,710,925	41,710,925	42,412,097	(701,172)
Emergency reserve	1,320,000	1,320,000	-	1,320,000
Contingency reserve	3,000,000	3,000,000	-	3,000,000
Other	339,375	339,375	-	339,375
Total expenditures	46,370,300	46,370,300	42,412,097	3,958,203
Excess (deficiency) of revenues over (under) expenditures	(508,900)	(508,900)	3,988,723	4,497,623
Other financing sources (uses)				
Proceeds from capital lease	-	-	480,164	480,164
Charter school allocations	(1,170,700)	(1,170,700)	(1,301,567)	(130,867)
Transfers from other funds	-	-	400,000	400,000
Transfers to other funds	(1,621,200)	(1,621,200)	(1,711,307)	(90,107)
Total other financing sources (uses)	(2,791,900)	(2,791,900)	(2,132,710)	659,190
Special item				
Transfer of assets from Passage Charter School	-	-	47,366	47,366
Change in fund balance	(3,300,800)	(3,300,800)	1,903,379	5,204,179
Fund balance, beginning of year	7,066,660	7,066,660	7,128,535	61,875
Fund balance, end of year	\$ 3,765,860	\$ 3,765,860	\$ 9,031,914	\$ 5,266,054

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, 2017

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources				
Investment earnings	\$ -	\$ -	\$ 4	\$ 4
Other	-	-	44	44
Total revenues	-	-	48	48
Expenditures				
Insurance premiums	745,300	748,300	724,674	23,626
Administration	93,875	93,875	99,334	(5,459)
Total expenditures	839,175	842,175	824,008	18,167
Excess (deficiency) of revenues over (under) expenditures	(839,175)	(842,175)	(823,960)	18,215
Other financing sources (uses)				
Transfers from other funds	839,100	839,100	839,100	-
Total other financing sources (uses)	839,100	839,100	839,100	-
Change in fund balance	(75)	(3,075)	15,140	18,215
Fund balance, beginning of year	459,994	459,994	873,059	413,065
Fund balance, end of year	\$ 459,919	\$ 456,919	\$ 888,199	\$ 431,280

Montrose County School District No. RE - 1J

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

Year ended June 30, 2017

	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other	Total Actual	Final Budget	Variance Favorable (Unfavorable)
Instruction	\$ 18,156,806	\$ 6,283,708	\$ 666,027	\$ 617,669	\$ 280,795	\$ -	\$ 26,005,005	\$ 25,897,579	\$ (107,426)
Supporting services									
Students	1,895,475	621,287	185,006	8,577	-	185	2,710,530	2,612,440	(98,090)
Instruction	899,643	544,508	295,554	133,331	2,440	4,818	1,880,294	1,820,921	(59,373)
General administration	467,855	113,975	101,678	23,430	9,666	-	716,604	690,093	(26,511)
School administration	1,959,197	652,776	46,070	87,143	5,474	1,284	2,751,944	2,758,709	6,765
Business	450,422	91,086	172,305	17,474	6,099	-	737,386	719,095	(18,291)
Plant operations and maintenance	1,981,047	799,091	528,165	1,128,896	6,628	-	4,443,827	4,444,340	513
Student transportation	45,982	14,754	1,534,577	106,327	2,836	-	1,704,476	1,888,026	183,550
Central services	335,403	97,831	289,204	38,663	40,946	1,175	803,222	856,482	53,260
Other	2,656	22,666	9,395	3,582	-	-	38,299	4,580	(33,719)
Fiscal emergency reserve	-	-	-	-	-	-	-	1,320,000	1,320,000
Contingency reserve	-	-	-	-	-	-	-	3,000,000	3,000,000
Other	-	-	-	-	-	-	-	339,375	339,375
Total supporting services expenditures	8,037,680	2,957,974	3,161,954	1,547,423	74,089	7,462	15,786,582	20,471,721	4,685,139
Other uses	-	-	-	-	-	64,204	64,204	-	(64,204)
Capital outlay	-	-	9,515	-	546,791	-	556,306	1,000	(555,306)
Total actual expenditures	26,194,486	9,241,682	3,837,496	2,165,092	901,675	71,666	42,412,097	\$ 46,370,300	\$ 3,958,203
Final Budget	25,840,624	9,408,595	4,005,662	2,078,660	336,864	4,699,895	46,370,300		
Variance Favorable (Unfavorable)	\$ (353,862)	\$ 166,913	\$ 168,166	\$ (86,432)	\$ (564,811)	\$ 4,628,229	\$ 3,958,203		

Montrose County School District No. RE - 1J

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

June 30, 2017

	Nutritional Services Fund	Student Activity Fund	Fee-in-Lieu Fund	Bond Redemption Fund	Capital Lease Fund	Capital Projects Fund	Total
Assets							
Cash	\$ 418,794	\$ 1,148,909	\$ 164,263	\$ -	\$ 139,215	\$ 2,342,014	\$ 4,213,195
Investments	563	-	-	1,277,059	-	43,206	1,320,828
Accounts receivable	516	6,110	-	413,271	-	-	419,897
Due from other funds	-	389	-	-	-	22,527	22,916
Inventories	167,824	-	-	-	-	-	167,824
Total assets	\$ 587,697	\$ 1,155,408	\$ 164,263	\$ 1,690,330	\$ 139,215	\$ 2,407,747	\$ 6,144,660
Liabilities, deferred inflows of resources, and fund balances							
Liabilities							
Accounts payable	\$ -	\$ 9,335	\$ -	\$ -	\$ -	\$ 563,342	\$ 572,677
Due to other funds	-	-	-	5,724	-	225,477	231,201
Accrued expenses	107,459	2,661	-	-	-	-	110,120
Unearned revenue	25,516	-	-	-	-	-	25,516
Total liabilities	132,975	11,996	-	5,724	-	788,819	939,514
Deferred inflows of resources							
Unavailable property tax revenue	-	-	-	18,543	-	-	18,543
Total deferred inflows of resources	-	-	-	18,543	-	-	18,543
Fund balances							
Non-spendable							
Inventories	167,824	-	-	-	-	-	167,824
Restricted							
Debt Service	-	-	-	1,666,063	-	-	1,666,063
Committed							
Debt service	-	-	-	-	139,215	-	139,215
Nutritional service	286,898	-	-	-	-	-	286,898
Student activities	-	1,143,412	-	-	-	-	1,143,412
Capital projects	-	-	164,263	-	-	1,618,928	1,783,191
Total fund balances	454,722	1,143,412	164,263	1,666,063	139,215	1,618,928	5,186,603
Total liabilities, deferred inflows, and fund balances	\$ 587,697	\$ 1,155,408	\$ 164,263	\$ 1,690,330	\$ 139,215	\$ 2,407,747	\$ 6,144,660

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, 2017

	Nutritional Services Fund	Student Activity Fund	Fee-in-Lieu Fund	Bond Redemption Fund	Capital Lease Fund	Capital Projects Fund	Total
Revenues							
Local sources	\$ 292,789	\$ 1,845,934	\$ -	\$ 1,961,732	\$ -	\$ 31,824	\$ 4,132,279
Intermediate sources	-	-	59,603	407	-	-	60,010
State sources	29,052	-	-	-	-	-	29,052
Federal sources	1,235,762	-	-	-	-	-	1,235,762
Total revenues	1,557,603	1,845,934	59,603	1,962,139	-	31,824	5,457,103
Expenditures							
Current:							
Instructional	-	-	-	-	-	23,163	23,163
Student activities	-	1,657,524	-	-	-	-	1,657,524
Food service	1,568,930	-	-	-	-	-	1,568,930
Capital outlay	-	-	-	-	-	765,630	765,630
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	610,000	424,529	-	1,034,529
Interest and fees	-	-	-	520,280	74,481	-	594,761
Total expenditures	1,568,930	1,657,524	-	1,130,280	499,010	788,793	5,644,537
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(11,327)	188,410	59,603	831,859	(499,010)	(756,969)	(187,434)
Other financing sources (uses)							
Proceeds from sale of assets	-	-	-	-	-	12,898	12,898
Transfers from other funds	-	-	-	-	498,500	63,600	562,100
Transfers to other funds	-	-	(100,000)	-	-	-	(100,000)
Total other financing sources (uses)	-	-	(100,000)	-	498,500	76,498	474,998
Change in fund balance	(11,327)	188,410	(40,397)	831,859	(510)	(680,471)	287,564
Fund balance, beginning of year	466,049	955,002	204,660	834,204	139,725	2,299,399	4,899,039
Fund balance, end of year	\$ 454,722	\$ 1,143,412	\$ 164,263	\$ 1,666,063	\$ 139,215	\$ 1,618,928	\$ 5,186,603

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, 2017

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources				
Food sales	\$ 266,900	\$ 266,900	\$ 290,884	\$ 23,984
Miscellaneous	1,500	1,500	1,905	405
	<u>268,400</u>	<u>268,400</u>	<u>292,789</u>	<u>24,389</u>
State sources				
K-12 reduced lunch program	12,300	12,300	11,331	(969)
Start smart	10,050	10,050	3,898	(6,152)
State child nutrition match	16,000	16,000	13,823	(2,177)
Total state sources	<u>38,350</u>	<u>38,350</u>	<u>29,052</u>	<u>(9,298)</u>
Federal sources				
National school lunch program	1,194,800	1,194,800	1,101,052	(93,748)
Commodities	119,000	119,000	122,715	3,715
Other grants	11,500	11,500	11,995	495
Total federal sources	<u>1,325,300</u>	<u>1,325,300</u>	<u>1,235,762</u>	<u>(89,538)</u>
Total revenues	<u>1,632,050</u>	<u>1,632,050</u>	<u>1,557,603</u>	<u>(74,447)</u>
Expenditures				
Current				
Food service activities	<u>1,642,100</u>	<u>1,642,100</u>	<u>1,568,930</u>	<u>73,170</u>
Other financing sources (uses)				
Transfers from other funds	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
Change in fund balance	9,950	9,950	(11,327)	(21,277)
Fund balance, beginning of year	<u>483,964</u>	<u>483,964</u>	<u>466,049</u>	<u>(17,915)</u>
Fund balance, end of year	<u>\$ 493,914</u>	<u>\$ 493,914</u>	<u>\$ 454,722</u>	<u>\$ (39,192)</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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Student activities	\$ 1,900,000	\$ 1,900,000	\$ 1,845,934	\$ (54,066)
Expenditures				
Current				
Student activities	1,900,000	1,900,000	1,657,524	242,476
Excess (deficiency) of revenues over (under) expenditures	-	-	188,410	188,410
Change in fund balance	-	-	188,410	188,410
Fund balance, beginning of year	872,247	872,247	955,002	82,755
Fund balance, end of year	\$ 872,247	\$ 872,247	\$ 1,143,412	\$ 271,165

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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Intermediate sources				
Fees in lieu of land dedication	\$ 50,000	\$ 50,000	\$ 59,603	\$ 9,603
Total revenues	50,000	50,000	59,603	9,603
Expenditures				
Supporting services	-	-	-	-
Other financing sources (uses)				
Transfers to other funds	-	(110,000)	(100,000)	(10,000)
Change in fund balance	50,000	(60,000)	(40,397)	(397)
Fund balance, beginning of year	207,599	207,599	204,660	(2,939)
Fund balance, end of year	<u>\$ 257,599</u>	<u>\$ 147,599</u>	<u>\$ 164,263</u>	<u>\$ (3,336)</u>

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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
General property tax	\$ 785,300	\$ 785,300	\$ 1,956,341	\$ 1,171,041
Penalties and interest on delinquent tax	-	-	2,219	2,219
Investment and interest earnings	-	-	3,172	3,172
Other fees	-	-	407	407
Total revenues	<u>785,300</u>	<u>785,300</u>	<u>1,962,139</u>	<u>1,176,839</u>
Expenditures				
Debt service				
Principal	610,000	610,000	610,000	-
Interest	175,300	593,300	520,280	73,020
Total expenditures	<u>785,300</u>	<u>1,203,300</u>	<u>1,130,280</u>	<u>73,020</u>
Change in fund balance	-	(418,000)	831,859	1,249,859
Fund balance, beginning of year	<u>817,768</u>	<u>817,768</u>	<u>834,204</u>	<u>16,436</u>
Fund balance, end of year	<u>\$ 817,768</u>	<u>\$ 399,768</u>	<u>\$ 1,666,063</u>	<u>\$ 1,266,295</u>

Montrose County School District No. RE - 1J

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

Year ended June 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Expenditures				
Debt service				
Principal	\$ 186,572	\$ 186,572	\$ 424,529	\$ (237,957)
Interest	311,928	312,928	74,481	238,447
Total expenditures	498,500	499,500	499,010	490
Excess (deficiency) of revenues over (under) expenditures	498,500	499,500	499,010	490
Other financing sources (uses)				
Transfers from other funds	498,500	499,500	498,500	(1,000)
Net change in fund balance	-	-	(510)	(1,490)
Fund balance, beginning of year	20	20	139,725	139,705
Fund balance, end of year	\$ 20	\$ 20	\$ 139,215	\$ 138,215

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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Local sources				
Investment and interest earnings	\$ 300	\$ 300	\$ 89,154	\$ 88,854
State sources				
Capital grant	-	-	752,219	752,219
Total revenues	300	300	841,373	841,073
Expenditures				
Current				
Debt issuance costs	-	-	156,377	(156,377)
Capital outlay	1,100,000	37,764,928	3,506,001	34,258,927
Total expenditures	1,100,000	37,764,928	3,662,378	34,102,550
Excess (deficiency) of revenues over (under) expenditures	(1,099,700)	(37,764,628)	(2,821,005)	34,943,623
Other financing sources (uses)				
Bond proceeds	-	36,664,928	24,172,906	(12,492,022)
Transfers from other funds	300,000	300,000	300,000	-
Total other financing sources (uses)	300,000	36,964,928	24,472,906	(12,492,022)
Change in fund balance	(799,700)	(799,700)	21,651,901	22,451,601
Fund balance, beginning of year	814,911	814,911	1,314,622	499,711
Fund balance, end of year	\$ 15,211	\$ 15,211	\$ 22,966,523	\$ 22,951,312

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, 2017

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive
				(Negative)
Revenues				
Local sources				
Investment and interest earnings	\$ 500	\$ 500	\$ 149	\$ (351)
Mini bus charges	20,000	20,000	21,675	1,675
Miscellaneous	-	-	10,000	10,000
Total revenues	<u>20,500</u>	<u>20,500</u>	<u>31,824</u>	<u>11,324</u>
Expenditures				
Current				
Instructional	-	-	23,163	(23,163)
Supporting services				
Transportation	20,000	20,000	-	20,000
Capital outlay	-	1,066,049	765,630	300,419
Total expenditures	<u>20,000</u>	<u>1,086,049</u>	<u>788,793</u>	<u>297,256</u>
Excess (deficiency) of revenues over (under) expenditures	500	(1,065,549)	(756,969)	308,580
Other financing sources (uses)				
Proceeds from sale of assets	-	-	12,898	12,898
Transfers from other funds	63,600	63,600	63,600	-
Total other financing sources (uses)	<u>63,600</u>	<u>63,600</u>	<u>76,498</u>	<u>12,898</u>
Net changes in fund balance	64,100	(1,001,949)	(680,471)	321,478
Fund balance, beginning of year	<u>1,267,340</u>	<u>1,267,340</u>	<u>2,299,399</u>	<u>1,032,059</u>
Fund balance, end of year	<u>\$ 1,331,440</u>	<u>\$ 265,391</u>	<u>\$ 1,618,928</u>	<u>\$ 1,353,537</u>

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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Premiums	\$ 6,700,900	\$ 6,700,900	\$ 6,613,604	\$ (87,296)
Interest income	1,300	1,300	7,771	6,471
Total revenues	<u>6,702,200</u>	<u>6,702,200</u>	<u>6,621,375</u>	<u>(80,825)</u>
Expenses				
Claims	6,010,750	6,010,750	5,177,937	832,813
Insurance premiums and administration	<u>691,450</u>	<u>691,450</u>	<u>782,403</u>	<u>(90,953)</u>
Total expenses	<u>6,702,200</u>	<u>6,702,200</u>	<u>5,960,340</u>	<u>741,860</u>
Contributions and transfers				
Transfers to other funds	<u>-</u>	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>
Change in net position	-	-	361,035	661,035
Net position, beginning of year	<u>1,171,129</u>	<u>1,171,129</u>	<u>2,111,682</u>	<u>940,553</u>
Net position, end of year	<u>\$ 1,171,129</u>	<u>\$ 1,171,129</u>	<u>\$ 2,472,717</u>	<u>\$ 1,601,588</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, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Amended		
Revenues				
Investment earnings	\$ 19,000	\$ 19,000	\$ 4,212	\$ (14,788)
Contributions	30,800	30,800	63,867	33,067
Rental income	7,200	7,200	8,295	1,095
Total revenues	<u>57,000</u>	<u>57,000</u>	<u>76,374</u>	<u>19,374</u>
Expenditures				
Scholarships awarded	56,000	66,000	65,156	844
General and administrative	1,000	1,000	1,135	(135)
Total expenditures	<u>57,000</u>	<u>67,000</u>	<u>66,291</u>	<u>709</u>
Change in net position	-	(10,000)	10,083	20,083
Net position, beginning of year	<u>1,114,957</u>	<u>1,114,957</u>	<u>1,133,112</u>	<u>18,155</u>
Net position, end of year	<u>\$ 1,114,957</u>	<u>\$ 1,104,957</u>	<u>\$ 1,143,195</u>	<u>\$ 38,238</u>

Montrose County School District No. RE-1J

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-thru ID</u>	<u>2017 Amount of Award Expended</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Colorado Department of Education			
School Breakfast Program	10.553	4553	\$ 244,091
National School Lunch Program (includes \$122,715 commodities)	10.555	4555	1,035,452
Summer Food Service Program for Children	10.559	4559	—
Child Nutrition Cluster Sub-Total			<u>1,279,543</u>
Total U.S. Department of Agriculture			1,279,543
U.S. DEPARTMENT OF DEFENSE			
NJROTC	12.000	9001	<u>76,965</u>
Total U.S. Department of Defense			76,965
U.S. DEPARTMENT OF EDUCATION			
Passed through Colorado Department of Education			
Adult Education – Basic Grants to States	84.002	5002-6002	128,188
Title I Grants to Local Educational Agencies	84.010	4010	1,222,774
Special Education – Grants to States	84.027	4027	1,122,673
Special Education – Preschool Grants	84.173	4173	<u>32,171</u>
Special Education Cluster (IDEA) Sub-Total			1,154,844
Rehabilitation Services – Vocational Rehabilitation Grants			
To States	84.126	5126	128,064
Rural Education	84.358	7358	114,167
English Language Acquisition State Grants	84.365	4365	69,234
Improving Teacher Quality State Grants	84.367	4367	270,220
Passed through State Board for Community College and Occupation Education			
Career and Technical Education – Basic Grants to States	84.048	4048	<u>50,740</u>
Total U.S. Department of Education			3,138,231
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start	93.600	8600	<u>1,210,924</u>
Total U.S. Department of Health and Human Services			<u>1,210,924</u>
Total expenditures of federal awards			<u>\$ 5,705,663</u>

Montrose County School District No. RE-1J

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

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. The District did not elect to use the 10% de minimis indirect cost rate.

Pass-through entities

The District did not pass-through any federal funds to other entities for the year ended June 30, 2017.

Commodities

USDA donated foods (commodities) have been valued at the USDA pricing levels.

NOTE B – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified 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*

January 12, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2018. 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a material weakness, described in the accompanying schedule of findings and questioned costs as item 2017-001.



Board of Education
January 12, 2018

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.

Montrose County School District's Response to Findings

Montrose County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Montrose County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

January 12, 2018

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, 2017. 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, 2017.



Board of Education
January 12, 2018

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we consider to be a material weakness.

Montrose County School District RE-1J's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Montrose County School District RE-1J's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2017

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?	<u>✓</u>	yes	<u> </u>	no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	yes	<u>✓</u>	none reported
Noncompliance material to financial statements noted?	<u> </u>	yes	<u>✓</u>	no

Federal Awards

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

Type of auditor's report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	<u> </u>	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>
84.027	Special Education Cluster (IDEA)
93.600	Head Start

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

Montrose County School District No. RE-1J

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

SECTION II - FINDINGS UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

**2017-001: Corrected Misstatements
Material Weakness in Internal Control**

Condition: The following material misstatements detected as a result of audit procedures were corrected by management: record amounts related to 2017 capital lease, expense 2017 bond issuance costs, record 2017 invoices related to the Columbine Middle School and Olathe High School construction projects, record and reclassify amounts related to the Head Start parking lot construction project.

Criteria: The District's financial statements must be presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause: Several key accounting personnel have retired from the District in recent years. The District's accounting department has had ongoing turnover and has been understaffed at times as a result.

Effect: Financial statements that are not correctly stated in accordance with U.S. GAAP can be misleading to users.

Recommendation: The District should consider taking steps that will ensure the general ledger system is maintained in a timely manner in accordance with U.S. GAAP and with Colorado Department of Education accounting requirements. These steps could include: 1) additional training and/or continuing education for its accountants related to U.S. GAAP for governments, 2) additional internal review of amounts in the general ledger system including tie out to related supporting documentation, 3) other additional resources as appropriate to ensure compliance.

Views of Responsible Officials: Management agrees with the finding and the recommended procedures either have been or will be implemented.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2017-002: Corrected Schedule of Expenditures of Federal Awards
Material Weakness in Internal Control**

Condition: The federal funds amount expended for the head start federal program (cfda #93.600) as per the schedule of expenditures of federal awards and underlying general ledger was materially incorrect, which was detected as a result of audit procedures and corrected by management.

Montrose County School District No. RE-1J

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

Criteria: Code of Federal Regulations (CFR) §200.508(b) states the auditee must “prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.” CFR §200.510(b) states, “The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.” CFR §200.502(a) states, “The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations.”

Cause: Several key accounting personnel have retired from the District in recent years. The District’s accounting department has had ongoing turnover and has been understaffed at times as a result.

Effect: If the schedule of expenditures of federal awards is not correctly stated, it can be misleading to users and can result in inadequate or incorrect single audit compliance testing.

Recommendation: The District should consider taking steps that will ensure the general ledger system is maintained in a timely manner in accordance with U.S. GAAP and with Colorado Department of Education accounting requirements. These steps could include: 1) additional training and/or continuing education for its accountants related to U.S. GAAP for governments, 2) additional internal review of amounts in the general ledger system including tie out to related supporting documentation, 3) other additional resources as appropriate to ensure compliance.

Views of Responsible Officials: Management agrees with the finding and the recommended procedures either have been or will be implemented.

Montrose County School District
District RE-1J
930 Colorado Ave.
Montrose, CO

CORRECTIVE ACTION PLAN

December 19, 2017

Cognizant or Oversight Agency for Audit Colorado Department of Education

Montrose County School District respectfully submits the following corrective action plan for the year ended 2017.

Chadwick, Steinkirchner, Davis & Co., P.C.
225 North Fifth Street
Suite 401
Grand Junction, CO 81501

Audit period: July 1, 2016 – June 30, 2017

The findings from the year ended June 30, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS -
FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2017-001

Corrected Misstatements

Condition: The following material misstatements detected as a result of audit procedures were corrected by management: record amounts related to 2017 capital lease, expense 2017 bond issuance costs, record 2017 invoices related to the Columbine Middle School and Olathe High School con-

struction projects, record and reclassify amounts related to the Head Start parking lot construction project.

Recommendation: The District should consider taking steps that will ensure the general ledger system is maintained in a timely manner in accordance with U.S. GAAP and with Colorado Department of Education accounting requirements. These steps could include: 1) additional training and/or continuing education for its accountants related to U.S. GAAP for governments, 2) additional internal review of amounts in the general ledger system including tie out to related supporting documentation, 3) other additional resources as appropriate to ensure compliance.

Action Taken: Montrose County School District concur with the recommendation, and it is being implemented effective December 19, 2017.

FINDINGS-FEDERAL AWARD PROGRAMS AUDITS AND QUESTIONED COST

2017-002

Corrected Schedule of Expenditures of Federal Awards.

Condition: The federal funds amount expended for the head start federal program (cfda #93.600) as per the schedule of expenditures of federal awards and underlying general ledger was materially incorrect, which was detected as a result of audit procedures and corrected by management.

Recommendation: The District should consider taking steps that will ensure the general ledger system is maintained in a timely manner in accordance with U.S. GAAP and with Colorado Department of Education accounting requirements. These steps could include: 1) additional training and/or continuing education for its accountants related to U.S. GAAP for governments, 2) additional internal review of amounts in the general ledger system including tie out to related supporting documentation, 3) other additional resources as appropriate to ensure compliance.

Action Taken: Montrose County School District concur with the recommendation, and it is being

implemented effective December 19, 2017.

If the Colorado Department of Education has questions regarding this plan, please call Adam Rogers at 970-252-7921.

Sincerely yours,

Adam Rogers Director of Finance Montrose County School District, District RE-1J

Montrose County School District No. RE-1J

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2017

There were no findings or questioned costs for the year ended June 30, 2016.



Colorado Department of Education
Auditors Integrity Report
 District: 2180 - MONTROSE COUNTY RE-1J
 Fiscal Year 2016-17
 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	7,128,535	46,026,783	44,123,404	9,031,914
18 Risk Mgmt Sub-Fund of General Fund	873,060	839,147	824,008	888,199
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	8,001,595	46,865,930	44,947,412	9,920,114
11 Charter School Fund	1,944,814	1,822,545	1,713,297	2,054,062
20,26-29 Special Revenue Fund	204,660	59,603	100,000	164,263
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	466,049	1,557,603	1,568,930	454,722
22 Govt Designated-Purpose Grants Fund	0	6,203,893	6,203,893	0
23 Pupil Activity Special Revenue Fund	955,002	1,845,934	1,657,524	1,143,412
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	834,204	1,962,140	1,130,280	1,666,064
39 Certificate of Participation (COP) Debt Service Fund	139,725	498,500	499,010	139,215
41 Building Fund	1,314,621	25,314,279	3,662,378	22,966,522
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	2,299,399	108,323	788,793	1,618,929
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	16,160,069	86,238,750	62,271,516	40,127,302
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	2,111,683	7,771	-353,264	2,472,718
Totals	2,111,683	7,771	-353,264	2,472,718
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	1,133,113	76,374	66,290	1,143,196
85 Foundations	0	0	0	0
Totals	1,133,113	76,374	66,290	1,143,196

FINAL