MONTEZUMA COUNTY (CORTEZ)
SCHOOL DISTRICT RE-1

Independent Accountants' Reports
And
Basic Financial Statements

June 30, 2018

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

TABLE OF CONTENTS
June 30, 2018

Independent Auditors' Report 1-2

Management's Discussion and Analysis 3-13

Basic Financial Statements

Government -Wide Financial Statements
Statement of Net Position 14
Statement of Activities 15

Fund Financial Statements
Governmental Funds
Balance Sheet
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position 16
Statement of Revenues, Expenditures, and Changes in Fund Balances 17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 18
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund 19
Food Service Fund 20
Governmental Designated-Purpose Grants Fund 21
Proprietary Fund
Internal Service Fund
Statement of Net Position 22
Statement of Revenues, Expenses, and Changes in Net Position 23
Statement of Cash Flows 24
Fiduciary Fund
Agency Fund
Statement of Fiduciary Net Position 25

Notes to the Financial Statements 26-61

Required Supplemental Information 62
Schedule of the District's Pension Contributions 63
Schedule of the District's Proportionate Share of the Net Pension Liability 64
Schedule of the District's Other Post Employment Benefits (OPEB) Plan Contributions 65
Schedule of the District's Proportionate Share of the Net Other Post Employment Benefits (OPEB) Plan Liability 66

Other Supplementary Information 67
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Debt Service Fund
Bond Redemption Fund 68
Capital Projects Fund
High School Capital Projects Fund 69
Capital Reserve Fund 70

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

TABLE OF CONTENTS
June 30, 2018

Other Supplementary Information - continued
- Proprietary Fund
  - Internal Service Fund
    - Self Insurance Fund 71
- Fiduciary Fund
  - Agency Fund
    - Pupil Activity Fund 72
- Component Units Combining Statements
  - Statement of Net Position 73
  - Statement of Activities 74

Information Required by Oversight Authorities 75
- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards 76-77
- Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 78-79
- Schedule of Expenditure of Federal Awards 80
- Notes to the Schedule of Expenditures of Federal Awards 81
- Schedule of Findings and Questioned Costs 82
- Summary of Prior Audit Findings 83
- Schedule of Corrective Action Plan 84
- Colorado Department of Education Auditors' Integrity Report 85

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Montezuma County (Cortez) School District RE-1, as of and for the year ended June 30, 2018, 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 the Children's KIVA Montessori Charter School, Inc, which represent 10.2 percent, 35.9 percent, and 32.9 percent, respectively, of the assets, fund balances, 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 aggregate discretely presented component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard 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. The financial statements of the Children's KIVA Montessori Charter School, Inc, a component of the District, were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Montezuma County (Cortez) School District RE-1, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montezuma County (Cortez) School District RE-1's basic financial statements. The other supplemental information and information required by oversight authorities, including the budgetary comparison schedules, combining component unit schedules and Colorado Department of Education Auditors' Integrity Report, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administration Requirement, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The budgetary comparison schedules, combining component unit schedules, Colorado Department of Education Auditors' Integrity Report and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors.

In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the budgetary comparison schedule, combining component unit schedules, the Colorado Department of Education Auditors' Integrity Report and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards,* we have also issued our report dated October 29, 2018, on our consideration of the Montezuma County (Cortez) School District RE-1's internal control over financial reporting and on our tests of its compliance with certain 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 *Governmental Auditing Standards* in considering Montezuma County (Cortez) School District RE-1's internal control over financial reporting and compliance.

Majors and Haley PC

Majors and Haley PC

Cortez, Colorado
October 29, 2018

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As of and for the Year Ended June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Montezuma County (Cortez) School District RE-1, Colorado's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please consider the information presented here in conjunction with additional information that can be found in the basic financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The District's net position, resulting from of this year's operations, decreased $14,335,993.
    - The decrease was, for the most part, the result of the District's share of PERA pension and OPEB expense which totaled $16,615,097.
- The District's total revenue was $26,021,970 which is an increase of $1,370,177 from $24,651,793 in the prior year.
    - General revenues (primarily state equalization and property tax) accounted for $20,464,380 in revenue or 78.6% of all revenues. Program specific revenues in the form of charges for services and grants account for $5,557,590 the remaining 21.4%.
- The District incurred $40,357,963 in expenses which is an increase of $5,761,622 (mostly due to net pension and OPEB expense) from $34,596,341 in the prior year. $5,557,590 of these expenses were offset by program specific charges for services, grants and contributions. The general revenues of $20,464,380 was not adequate, by $14,335,993, to cover all the expenditures that were not offset by program specific revenues.
- The General Fund reported a $1,054,136 increase in fund balance from $7,219,027 in the prior year to $8,273,163. This increase is 14.6%. However, $316,507 of the increase are tax revenues collected from Kinder Morgan and will be recorded as a committed fund balance in case the monies must be returned. The total committed fund balance from Kinder Morgan collections is $1,567,801.
    - The General Fund revenues increased $871,556 from $19,902,875 to $20,774,431, for an 4.4% increase.
    - The General Fund expenditures increased (including transfers) $1,328,925 from $18,391,370 in the prior year to $19,720,295. This is an 7.23% increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Statements

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

- The Statement of Net Position presents information about all the District's assets, liabilities and deferred outflows/inflows, with the difference reported as net position.

- The Statement of Activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the Statement of Activities when the underlying event occurs, regardless of the timing of related cash flow. Thus, all the revenues and expenses are taken into account regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.

- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school facilities.

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

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

Fund Financial Statements

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

The District uses three types of funds:

- ***Governmental funds -*** Most of the District's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. Governmental fund information helps one determine whether there are more, or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them. The District maintains six different governmental funds. They are the General Fund, Food Service Fund, Governmental Designated-Purpose Grants Fund, Bond Redemption Fund, the High School Building Fund and the Capital Projects Fund. They are all considered major funds due to their importance to the District.

- ***Proprietary funds -*** Services for which the District charges a fee are generally reported in proprietary funds. The District maintains one type of proprietary fund, the internal service fund. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the employee medical benefit activities related to the District's employee medical benefit insurance needs.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, net position was ($20,067,564) at the close of the most recent fiscal year.

Net investment in capital assets (e.g. land and improvements, buildings, and equipment net any related debt to acquire those assets that is still outstanding) represents $31,771,535 of the net position. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Property taxes are levied specifically to fund debt service on general obligation bonds.

An additional $4,612,214 of the net position represents resources that are subject to external restrictions on how they may be used. $850,000 of the restricted net position is an emergency reserve required by the Tabor amendment; $133,452 for food service; $1,480,609 is for the repayment of the general obligation bonds; $1,791,403 is for the capital projects and $356,750 is for Technology and Insurance.

The remaining ($56,451,313) is unrestricted net position. The negative balance is due to a net pension and OPEB liability of $87,152,990, representing the District's share of the state retirement system plan.

The following table indicates a summary of the Statement of Net Position for Governmental Activities as of June 30, 2018, and 2017.

Table 1

Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	2018	2017
Assets		
Current assets	$ 17,953,472	$ 15,938,234
Capital assets, net of depreciation	48,837,178	50,819,491
Total assets	66,790,650	66,757,725
Deferred Outflows of Resources	24,562,771	5,344,896
Liabilities		
Current liabilities	3,685,570	2,595,129
Noncurrent liabilities	104,218,633	98,590,141
Total liabilities	107,904,203	101,185,270
Deferred Inflows of Resources	3,516,782	364,227
Net Position		
Invested in capital assets	31,771,535	32,841,094
Restricted	4,612,214	4,966,254
Unrestricted	(56,451,313)	(41,605,892)
Total net position	$ (20,067,564)	$ (3,798,544)

At the close of the most recent fiscal year current assets, $17,953,472, comprised 26.8% of total assets, increasing from 23.8% in the prior year. The investments in capital assets, less depreciation make up the remaining 73.2% of assets. Accrued wages and benefits represent 59.2% of the total current liabilities. Accrued wages and benefits occur when teachers and certain other District employee's work nine or ten months of the year but are paid over a full twelve months. Current liabilities increased $1,090,441 from $2,595,129 in the prior year to $3,685,570. There was a net increase in noncurrent liabilities from the prior year of $5,628,492. This was due to the net pension liability; debt payments and deferred outflows of resources net of deferred inflows of resources.

The following table indicates the summary of Changes in Net Position for Governmental Activities in the fiscal year 2018 and 2017.

Table 2

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

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Charges for services	$ 1,705,888	$ 5,898,823
Operating grants and contributions	3,778,290	2,188,360
Capital grants and contributions	73,412	(403,367)
General revenues		
Taxes	12,488,740	13,344,160
State Equalization	8,198,296	6,304,960
Other	(222,656)	280,384
Total revenues	26,021,970	27,613,320
Expenses		
Instruction	20,645,128	18,588,122
Students and instructional staff	5,524,040	4,349,770
Administration and business	4,057,943	3,217,456
Plant operation and maintenance	3,091,522	2,777,273
Student transportation	1,690,269	1,585,056
Central and other support services	626,569	3,115,068
Food service operations	1,555,274	1,384,586
Facilities acquisition	2,620,683	1,992,989
Interest on long-term debt	546,535	547,548
Total expenses	40,357,963	37,557,868
Increase (decrease) in net position	$ (14,335,993)	$ (9,944,548)

State equalization and taxes accounted for most of the District's total revenue, with each contributing 31 percent and 47.2 percent respectively. Another 14.6 percent came from state and federal grants and the remainder from charges for services and miscellaneous sources. See Table 3.

The District's expenses are predominately related to instruction, (51.9 percent). The District's administrative and business activities accounted for 10.2 percent of total costs. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2018

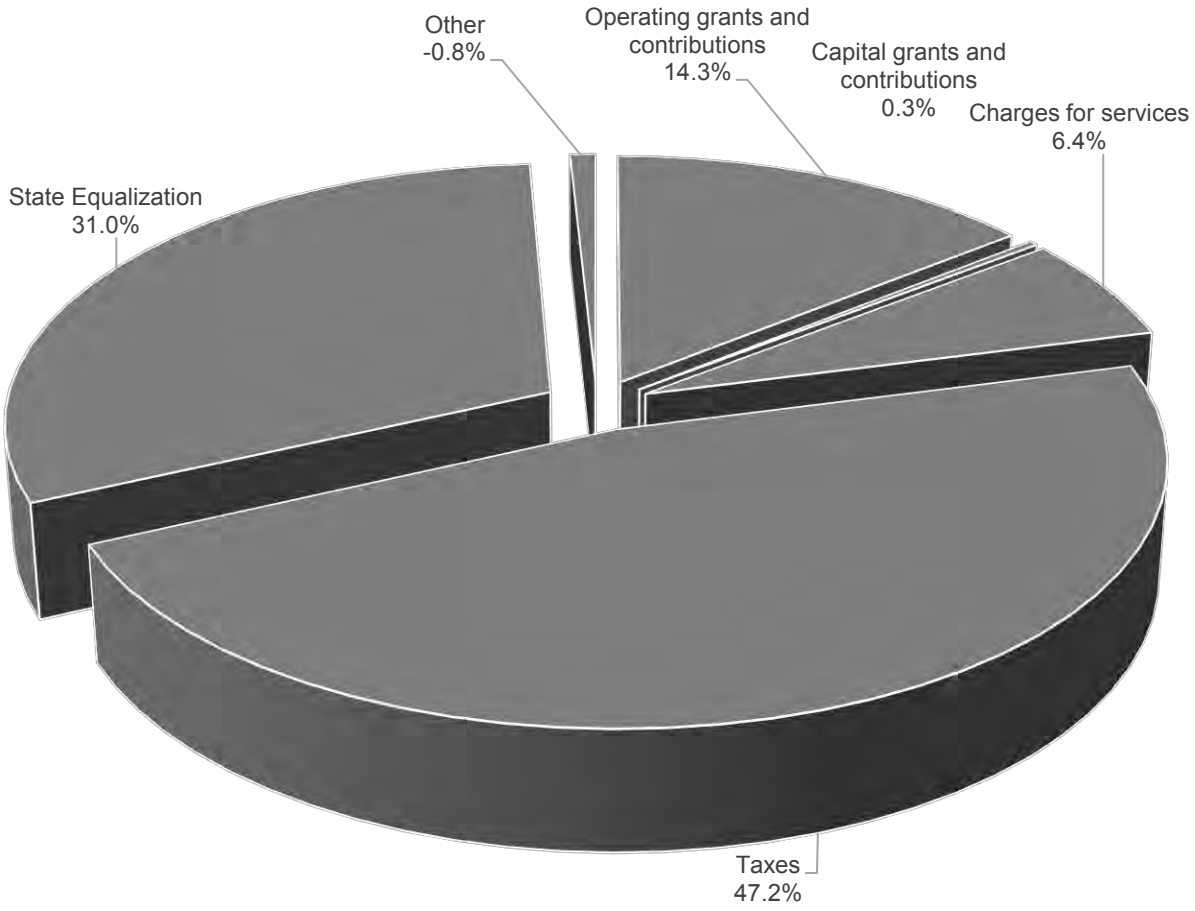
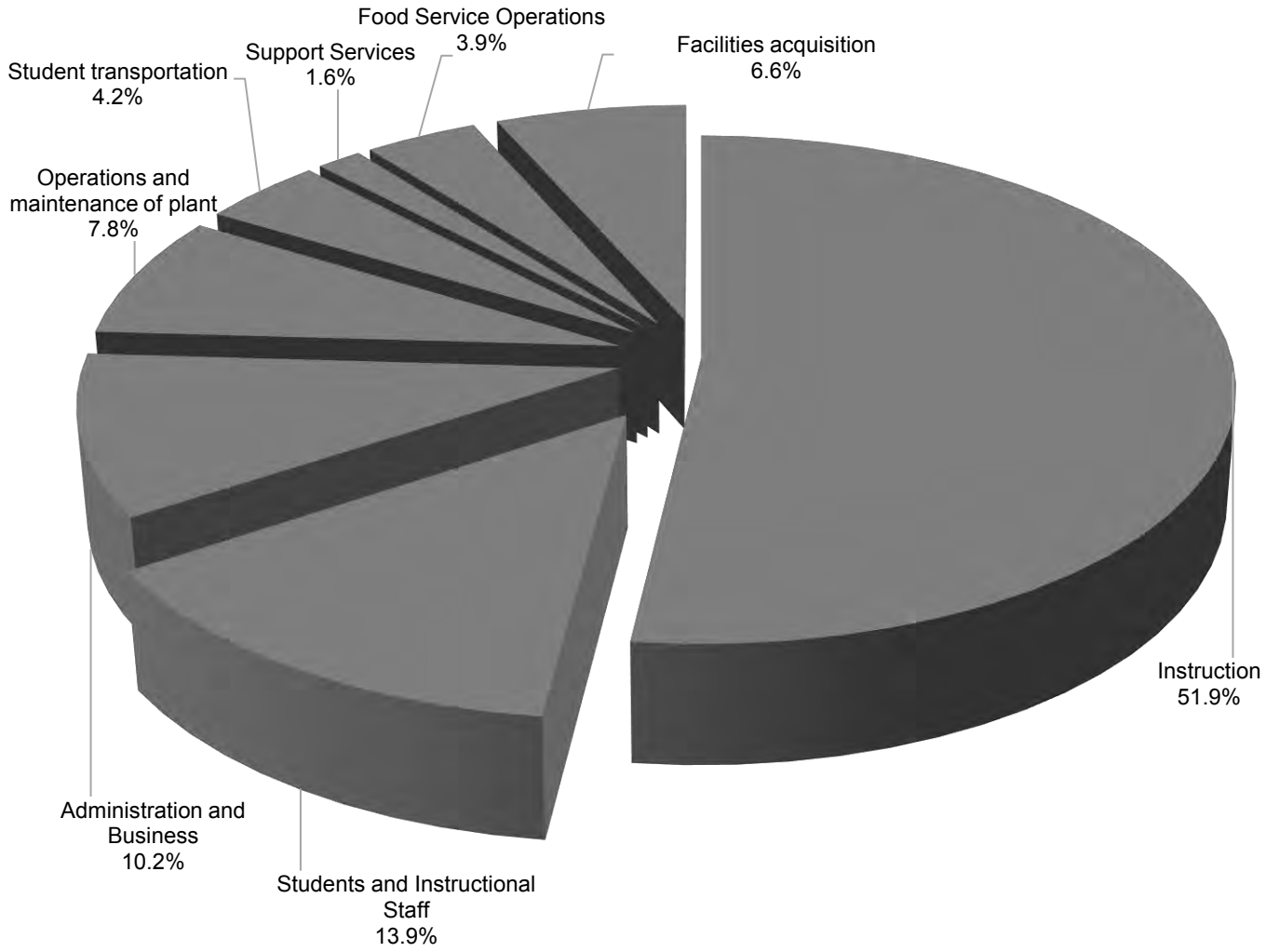


Table 4
Expenses for Fiscal Year 2018



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994 (SFA). Under the SFA the District received $7,414.68 per funded student. In fiscal year 2018 the funded pupil count was 2,707.5. Charter Schools accounted for 278.3 of this funded pupil count. Funding for the SFA comes from property taxes, specific ownership taxes and state equalization. The District receives approximately 51.2 percent of this funding from state equalization while the remaining SFA funding amounts consist of property and specific ownership taxes.

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

Table 5

Governmental Activities Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	$20,645,128	$18,588,122	$18,672,687	$16,125,075
Students and Instructional staff	5,524,040	4,349,770	3,802,037	3,203,518
Administration and Business	4,057,943	3,217,456	3,658,913	3,140,273
Operations and maintenance of plant	3,091,522	2,777,273	3,018,110	2,777,273
Student transportation	1,690,269	1,585,056	1,416,567	1,293,908
Central and other support services	626,569	3,115,068	613,511	90,327
Food service operations	1,555,274	1,385,586	451,330	347,410
Facilities acquisition	2,620,683	1,992,989	2,620,683	2,348,720
Interest on long-term debt	546,535	547,548	546,535	547,548
Total	$40,357,963	$37,558,868	$34,800,373	$29,874,052

- The cost of all governmental activities during the year was $40,357,963.
- Some of the cost was financed by the users of the District's programs ($1,705,888).
- Federal and state government subsidized $3,851,702.
- However, most of the District's costs ($20,464,380) were financed by State and District taxpayers. This portion of governmental activities was financed for the most part with $8,198,296 in state equalization, net of per pupil charter school allocation, from the School Finance Act of 1994 (SFA) and $12,488,740 in property and specific ownership taxes.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has six funds that are considered major under GASB 34 reporting requirements. Information about the District's government funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues and other financing sources of $26,578,978 and expenditures and other financing uses of $26,180,688.

General Fund Budgetary Highlights

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

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

- Increases in appropriations were due primarily to additional funding that was received after the original budget was prepared.
- Actual expenditures, including transfers were $1,562,708 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2018, the District has invested $74,156,175 in land, buildings, and equipment (including vehicles). Table 6 shows capital assets for 2018 compared to 2017:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2017	2018
Land	$ 812,080	$ 812,080
Buildings	68,528,523	69,812,200
Equipment	3,810,978	3,531,895
Total	$73,151,581	$74,156,175

Additional information on the District's capital assets can be found in Note 5 on page 37 of this report.

LONG-TERM DEBT

General obligation bonds were issued November 27, 2012 and February 6, 2013, respectively, for the purpose of constructing a new high school. At June 30, 2017 the balance of these bonds was $17,908,747. During fiscal year 2018 the District paid principal of $890,202 to take the balance at June 30, 2018 to $17,018,545. In fiscal year 2017 the District entered into a capital lease for the purchase of a bus for $69,750. During fiscal year 2018 the District paid $22,552 in principal to take the balance to $47,098. Additional information can be found in Note 7 on page 38 of this report.

CHARTER SCHOOLS

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, parents, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, the financial statements of the component units, or need additional financial information, contact the Business Office, Montezuma County (Cortez) School District RE-1; P.O. Drawer R; 400 North Elm Street, Cortez, Colorado 81321.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Statement of Net Position

June 30, 2018

	Primary Government	Component Units
	Governmental Activities	Charter Schools
Assets		
Cash and investments	$ 16,361,349	$ 1,632,930
Cash with fiscal agent	67,315	
Taxes receivable	659,032	
Due from District Charter Schools	10,891	(10,891)
Grants receivable	548,404	34,675
Other receivables		3,760
Inventories	5,189	
Prepaid expenses		5,600
Capital assets - net of depreciation	48,837,178	633,165
Total Assets	66,489,358	2,299,239
Deferred Outflows of Resources		
Pensions, net of accumulated amortization	24,491,287	2,966,302
OPEB, net of accumulated amortization	71,484	15,183
Total Deferred Outflows of Resources	24,562,771	2,981,485
Liabilities		
Accounts payable	521,867	6,894
Accrued salaries and benefits payable	2,182,634	201,487
Grants unearned revenue	679,777	
Long-term liabilities		
Due within one year	937,766	
Due in more than one year	16,127,877	
Net pension liability	85,207,216	9,322,820
Net OPEB liability	1,945,774	212,896
Total Liabilities	107,602,911	9,744,097
Deferred Inflows of Resources		
Pensions, net of accumulated amortization	3,484,230	381,395
OPEB, net of accumulated amortization	32,552	3,574
Total Deferred Inflows of Resources	3,516,782	384,969
Net Position		
Net investment in capital assets	31,771,535	633,165
Restricted		
TABOR	850,000	89,400
Food service	133,452	
Debt service	1,480,609	
Capital projects	1,791,403	385,160
Technology	176,572	
Insurance	180,178	
Unrestricted	(56,451,313)	(5,866,067)
Total Net Position	$ (20,067,564)	$ (4,758,342)

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2018

	Expenses	Program revenues: Charges for Services	Program revenues: Operating Grants and Contributions	Program revenues: Capital Grants and Contributions	Net (expenses) revenues and changes in net position: Primary Government: Governmental Activities	Net (expenses) revenues and changes in net position: Component Units: Charter Schools
Primary Government						
Governmental Activities						
Instructional program services	$ 20,645,128	$ 1,000,450	$ 971,991		$ (18,672,687)	
Support program services						
Students	2,063,865		407,710		(1,656,155)	
Instructional staff	3,460,175		1,314,293		(2,145,882)	
General administration	822,481		36,176		(786,305)	
School administration	2,669,462	233,552	92,199		(2,343,711)	
Business	566,000		37,103		(528,897)	
Plant operation and maintenance	3,091,522			$ 73,412	(3,018,110)	
Student transportation	1,690,269	272,478	1,224		(1,416,567)	
Central support services	532,844	11,306			(521,538)	
Other support services	93,725		1,752		(91,973)	
Food service operations	1,555,274	188,102	915,842		(451,330)	
Facilities acquisition	2,620,683				(2,620,683)	
Interest on long-term debt	546,535				(546,535)	
Total Governmental Activities	40,357,963	1,705,888	3,778,290	73,412	(34,800,373)	
Total Primary Government	$ 40,357,963	$ 1,705,888	$ 3,778,290	$ 73,412	(34,800,373)	
Component Units - Charter Schools	$ 4,635,951	$ 19,482	$ 589,673	$ 88,711		$ (3,938,085)
General Revenues						
Property tax for general purposes					9,929,412	
Property tax for repayment of debt					1,455,260	
Specific ownership tax for general purposes					1,104,068	
Loss on the sale of assets					(547,428)	
Intergovernmental						
State Equalization					10,260,966	
Per pupil charter school allocation					(2,062,670)	2,062,670
Mineral leasing						
Public lands					111,588	5,402
Impact aid						39,388
Miscellaneous					213,184	234,613
Total General Revenues					20,464,380	2,342,073
Changes in Net Position					(14,335,993)	(1,596,012)
Net Position Beginning of the Year - as restated					(5,731,571)	(3,252,330)
Net Position End of the Year					$ (20,067,564)	$ (4,848,342)

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Governmental Funds
Balance Sheet

June 30, 2018

	General Fund	Food Service Fund	Governmental Designated-Purpose Grants Fund	Bond Redemption Fund	High School Building Fund	Capital Projects Fund	Total Governmental Funds
Assets							
Cash and investments	$ 10,593,173	$ 211,000	$ 117,155	$ 1,448,337	$ 811,687	$ 1,094,970	$ 14,276,322
Cash with fiscal agent	27,023			4,292			31,315
Taxes receivable	575,577			83,455			659,032
Interfund receivable	68,429		232,863				301,292
Due from Charter Schools	10,891						10,891
Grants receivable	39,344		509,060				548,404
Inventories		5,189					5,189
Total Assets	$ 11,314,437	$ 216,189	$ 859,078	$ 1,536,084	$ 811,687	$ 1,094,970	$ 15,832,445
Liabilities							
Interfund payable			$ 301,292				$ 301,292
Accounts payable	$ 345,258	$ 605	60,750		$ 115,254		521,867
Accrued salaries and benefits payable	1,876,426	76,943	229,265				2,182,634
Grants deferred revenue	420,586		259,191				679,777
Total Liabilities	2,642,270	77,548	850,498		115,254		3,685,570
Deferred Inflows of Resources							
Unearned revenue - property tax	399,004			$ 55,475			454,479
Fund Balances							
Non spendable		5,189					5,189
Restricted							
TABOR	850,000						850,000
Food service		133,452					133,452
Debt service				1,480,609			1,480,609
Capital projects					696,433	$ 1,094,970	1,791,403
Technology	176,572						176,572
Insurance	180,178						180,178
Committed	1,567,801						1,567,801
Unrestricted							
Assigned for next year's expenditures	5,498,612		8,580				5,507,192
Total Fund Balances	8,273,163	138,641	8,580	1,480,609	696,433	1,094,970	11,692,396
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 11,314,437	$ 216,189	$ 859,078	$ 1,536,084	$ 811,687	$ 1,094,970	$ 15,832,445

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

Total Fund Balance Governmental Funds		$ 11,692,396
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital assets	$ 73,151,581	
Accumulated depreciation	(24,314,403)	
		48,837,178
Unavailable revenues are not available to pay for current period expenditures and, therefore, are deferred in the funds.		454,479
Long-term liabilities and related items, including net pension liability, OPEB plan liability and pension and OPEB-related deferred outflows/inflows of resources, are not due and payable in the current year, and, therefore, are not reported in governmental funds.		
Due within one year	(937,766)	
Due in more than one year	(16,127,877)	
Net pension liability	(85,207,216)	
Deferred outflows of resources related to pensions - net	24,491,287	
Deferred inflows of resources related to pensions - net	(3,484,230)	
Net OPEB liability	(1,945,774)	
Deferred outflows of resources related to OPEB - net	71,484	
Deferred inflows of resources related to OPEB - net	(32,552)	
		(83,172,644)
The internal service funds are used by the District to account for the costs of employee medical benefits. The assets and liabilities of the internal service fund is included with governmental activities.		2,121,027
Total Net Position Governmental Activities		$ (20,067,564)

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2018

	General Fund	Food Service Fund	Governmental Designated-Purpose Grants Fund	Bond Redemption Fund	High School Building Fund	Capital Projects Fund	Total Governmental Funds
Revenues							
Local sources							
Taxes	$10,798,290			$1,455,260			$ 12,253,550
Other	397,926	$ 188,102	$ 161,043	14,509	$ 1,593	$ 288,784	1,051,957
Intermediate sources	106,991						106,991
State sources							
State Equalization	10,260,966						10,260,966
Per pupil charter school allocation	(2,062,670)						(2,062,670)
Grants	647,414	18,534	526,565			73,412	1,265,925
Federal sources							
Grants	625,514	897,308	2,174,840				3,697,662
Other						4,597	4,597
Total Revenues	20,774,431	1,103,944	2,862,448	1,469,769	1,593	366,793	26,578,978
Expenditures							
Instructional program services	11,288,618		972,167				12,260,785
Support program services							
Students	765,785		407,710				1,173,495
Instructional staff	985,392		1,314,293				2,299,685
General administration	549,359		36,176				585,535
School administration	1,440,517		92,199				1,532,716
Business	294,826		37,103			15	331,944
Plant operation and maintenance	2,098,108					80,476	2,178,584
Student transportation	1,182,562		1,224				1,183,786
Central support services	702,479						702,479
Other support services	47,953		1,752				49,705
Food service operations		1,103,776				22,877	1,126,653
Facilities acquisition					1,123,211	195,373	1,318,584
Debt service	24,586			1,412,151			1,436,737
Total Expenditures	19,380,185	1,103,776	2,862,624	1,412,151	1,123,211	298,741	26,180,688
Excess revenues over (under) expenditures	1,394,246	168	(176)	57,618	(1,121,618)	68,052	398,290
Other Financing Sources (Uses)							
Transfers in (out)	(340,110)					340,110	-
Total Other Financing Sources (Uses)	(340,110)					340,110	-
Net Change in Fund Balances	1,054,136	168	(176)	57,618	(1,121,618)	408,162	398,290
Fund Balances Beginning of the Year	7,219,027	138,473	8,756	1,422,991	1,818,051	686,808	11,294,106
Fund Balances End of the Year	$ 8,273,163	$ 138,641	$ 8,580	$1,480,609	$ 696,433	$ 1,094,970	$ 11,692,396

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

For the Year Ended June 30, 2018

Net Change in Fund Balances Governmental Funds		$ 398,290
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period the basis of assets sold.		
Capital outlay	$ 338,351	
Depreciation expense	(1,507,636)	
Basis of assets sold	(813,028)	
		(1,982,313)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		235,190
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change in net position and OPEB liability, and pension and OPEB-related deferred outflows/inflows of resources in the current period.		
Pension contributions	2,299,634	
Pension expense	(16,517,049)	
OPEB contributions	124,233	
OPEB expense	(98,048)	
Principal payment on long-term debt	912,754	
		(13,278,476)
The change in net position of the internal service fund is reported with governmental activities.		291,316
Change in Net Position of Governmental Activities		$ (14,335,993)

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

General Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Property taxes	$ 9,695,518	$ 9,373,403	$ 9,694,222	$ 320,819
Specific ownership tax	1,015,741	929,776	1,104,068	174,292
Charges for services	487,200	537,093	233,552	(303,541)
Other	74,810	90,810	164,374	73,564
Intermediate sources				
Mineral Lease	155,000	155,000		(155,000)
Public School Lands	100,000	100,000	106,991	6,991
State sources				
State Equalization	9,392,806	10,251,948	10,260,966	9,018
Per pupil charter school allocation	(2,194,543)	(2,149,740)	(2,062,670)	87,070
Grants	1,120,122	1,073,903	647,414	(426,489)
Federal sources				
Grants	500,000	500,000	625,514	125,514
Total Revenues	20,346,654	20,862,193	20,774,431	(87,762)
Expenditures				
Instructional Program	12,084,303	11,669,960	11,288,618	381,342
Support Programs				
Students	771,382	776,783	765,785	10,998
Instructional staff	1,153,545	1,313,391	985,392	327,999
General administration	426,936	496,922	549,359	(52,437)
School administration	1,345,005	1,420,290	1,440,517	(20,227)
Business	339,251	350,848	294,826	56,022
Plant operation and maintenance	2,159,204	2,196,140	2,098,108	98,032
Student transportation	1,115,494	1,322,268	1,182,562	139,706
Central support services	474,318	470,038	702,479	(232,441)
Other support services	8,645	23,500	47,953	(24,453)
Other			24,586	(24,586)
Appropriated reserves	1,144,532	902,753		902,753
Total Expenditures	21,022,615	20,942,893	19,380,185	1,562,708
Excess revenues over (under) expenditures	(675,961)	(80,700)	1,394,246	1,474,946
Other Financing Sources (Uses)				
Transfers Out		(340,110)	(340,110)	-
Total Other Financing Sources (Uses)		(340,110)	(340,110)	-
Net Change in Fund Balances	(675,961)	(420,810)	1,054,136	1,474,946
Fund Balances beginning of the year	6,297,342	7,219,027	7,219,027	-
Fund Balances end of the year	$ 5,621,381	$ 6,798,217	$ 8,273,163	$ 1,474,946

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Food sales	$ 160,000	$ 160,000	$ 182,810	$ 22,810
Other	100	100	5,292	5,192
State sources				
Grants	18,100	18,100	18,534	434
Federal sources				
Grants	857,000	857,000	897,308	40,308
Total local sources	1,035,200	1,035,200	1,103,944	68,744
Expenditures				
Support programs				
Food service operations				
Salaries	350,000	372,897	372,205	692
Employee benefits	191,000	249,841	237,119	12,722
Purchased services				
Property	5,000	8,000	4,305	3,695
Other	700	700	2,309	(1,609)
Food and supplies	482,400	468,000	479,563	(11,563)
Property	3,500	3,500		3,500
Other	13,800	15,000	8,275	6,725
Appropriated reserves	102,629	55,735		55,735
Total Expenditures	1,149,029	1,173,673	1,103,776	69,897
Excess revenue over (under) expenditures	(113,829)	(138,473)	168	138,641
Net change in fund balance	(113,829)	(138,473)	168	138,641
Fund balance beginning of the year	113,829	138,473	138,473	-
Fund balance end of the year	$ -	$ -	$ 138,641	$ 138,641

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Grants	$ 9,800	$ 57,146	$ 128,224	$ 71,078
Donations			32,819	32,819
State sources				
Grants	303,230	492,528	526,565	34,037
Federal sources				
Grants	2,312,748	2,672,259	2,174,840	(497,419)
Total Revenues	2,625,778	3,221,933	2,862,448	(359,485)
Expenditures				
Instructional Program	843,198	880,081	972,167	(92,086)
Support Programs				
Students		418,944	407,710	11,234
Instructional staff	1,668,607	1,781,592	1,314,293	467,299
General administration		34,437	36,176	(1,739)
School administration	96,849	91,820	92,199	(379)
Business	17,124	15,059	37,103	(22,044)
Student transportation			1,224	(1,224)
Other support services			1,752	(1,752)
Total Expenditures	2,625,778	3,221,933	2,862,624	359,309
Excess revenues over (under) expenditures	-	-	(176)	(176)
Net Change in Fund Balances	-	-	(176)	(176)
Fund Balances beginning of the year	-	-	8,756	8,756
Fund Balances end of the year	$ -	$ -	$ 8,580	$ 8,580

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Proprietary Fund

Statement of Net Position

June 30, 2018

	Governmental Activities Internal Service Fund Self-Insurance Fund
Assets	
Current Assets	
Cash and investments	$ 2,085,027
Cash with fiscal agent	36,000
Total Current Assets	2,121,027
Total Assets	2,121,027
Net Position	
Unrestricted	2,121,027
Total Net Position	$ 2,121,027

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Proprietary Fund

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2018

	Governmental Activities
	Internal Service Fund
	Self-Insurance Fund
Operating Revenues	
Premiums	$ 2,873,164
Operating Expenses	
Central service	
Purchased services	
Other	(2,591,372)
Operating income (loss)	281,792
Non-Operating Revenue (Expense)	
Local sources	
Earnings on investments	9,524
Net income (loss)	291,316
Net Position Beginning of the Year	1,829,711
Net Position End of the Year	$ 2,121,027

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Proprietary Funds
Statement of Cash Flows

For the Year Ended June 30, 2018

	Governmental Funds
	Internal Service Fund
	Self-Insurance Fund
Cash Flows from Operating Activities	
Cash received from customers	$ 2,873,164
Cash payments to suppliers for goods and services	(2,591,372)
Net Cash Flows provided (used) by Operating Activities	281,792
Cash Flows from Investing Activities	
Earnings on investments	9,524
Net Cash Flows provided (used) by Investing Activities	9,524
Net Increase (Decrease) in Cash and Cash Equivalents	291,316
Cash and Cash Equivalents Beginning of the Year	1,829,711
Cash and Cash Equivalents End of the Year	$ 2,121,027
Reconciliation of operating income (loss) to Net Cash provided (used) by Operating Activities	
Operating income (loss)	$ 281,792
Total adjustments	
Net Cash Flows provided (used) by Operating Activities	$ 281,792

The accompanying notes are integral part of this statement.

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

As of June 30, 2018

		Agency Fund
Assets		
Cash	$	288,752
Total Assets	$	288,752
Liabilities		
Accounts payable	$	93
Due to agency recipients		288,659
Total Liabilities	$	288,752

The accompanying notes are an integral part of this statement.

1. *Summary of Significant Accounting Policies*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories – Inventories purchased by the Food Service Fund are stated at cost as determined by the first-in, first-out method. Commodity inventories are stated at USDA'S assigned value, which approximate fair value at the date of receipt. Expenses for food items are recorded when used. The federal government donates surplus commodities to supplement the national school lunch programs.

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

The District maintains a capitalization threshold of $25,000 for major outlays for buildings and improvements. The District does not possess any infrastructure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restricted fund balance consists of required TABOR reserves of $850,000; debt service per covenants of $1,480,609; $133,452 for Food Services; $1,791,403 for capital projects; and the Technology and Insurance of $356,750.

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

Net Position - Net position represents the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the District considers restricted funds to have been spent first.

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled C*hanges between the measurement date of the net pension liability and June 30, 2018.*

Defined Benefit Other Post Employment Benefit (OPEB) Plan -The District participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflow of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose,

benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows and inflows of resources, revenues and expenditures (expenses). Actual results could differ from those estimates and assumptions used

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

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

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

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

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

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

Public hearings are conducted to obtain comments.

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

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

2. *Cash and Investments*

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

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

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

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

At June 30, 2018, the District had investments in one local governmental investment pool, the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is routinely monitored by the Colorado Division of Securities with regard to its operations and investments, which are also subject to provisions of C.R.S. Title 24, Article 75, and Section 6. The fair value of the investments in COLOTRUST is the same as the value of the pool shares. None of these types of investments are categorized because they are not evidenced by securities that exist in physical or book entry form. COLOTRUST is rated AAAm from Standard and Poor's. Financial statements for COLOTRUST may be obtained at www.colotrust.com.

At June 30, 2018, the carrying amount of the District's cash and investments was $16,650,101, including $288,752 of agency fund deposits. The District's bank balances were $5,470,037 and COLOTRUST balances were $11,765,848. The District's bank balances at June 30, 2018 and during the year ended June 30, 2018 were entirely covered by FDIC insurance or pledged collateral held by the District's agent banks in the name of governmental accounts of which the District is a part.

3. *Interfund Balances and Transfers*

Balances of interfund receivables, payables and transfers at June 30, 2018 are as follows:

Fund	Due To	Due From	Transfer In	Transfer Out
General Fund	$ 68,429			$ 340,110
Food Service Fund				
Governmental Designated Purpose Grants Fund	232,863	$ 301,292		
Capital Projects Fund			$ 340,110	
Totals	$ 301,292	$ 301,292	$ 340,110	$ 340,110

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

4. *Federal and State Administered Grants*

Federal and state administered grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned. Receivables and Deferred Revenues at June 30, 2018 are as follows:

Fund	Grant Number	Receivable	Unearned Revenue
Governmental Designated Purpose Grants Fund			
Local Grants		$ 3,630	$ 3,233
State Grants			
From Colorado Department of Education			
ELPA	3139		21,284
ELPA	3140		2,003
Expelled and At Risk Students	3183		3,507
State Library Grant	3207		15
Advanced Placement	3226		7,481
Rural School Funding	3230	39,344	420,586
Connect for Success	3238		10,000
Federal Grants			
From Colorado Department of Education			
Title I	4010	158,614	
Title I Pathways	5010	63,390	
Title I Connect for Success	5010	12,025	
Title I EASI	5010	14,100	
Title III English Language	4365	1,586	
Title II Part A Teacher Quality	4367	17,048	
Title V Part B Rural Education	4424	50	
Title II Part B Math and Science Ptr	5366	139,575	
Title VI Part B Rural and Low Income	6358	8,503	
School Improvement	7377	24,253	
Other Grants			
Title V Indian Education	4060	44,879	
Perkins	4048	21,407	
Other			211,668
Totals		$ 548,404	$ 679,777

5. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 follows:

	Capital Assets July 1, 2017	Increase	Decrease	Capital Assets June 30, 2018
Governmental Activities				
Capital Assets, being depreciated				
Buildings and Improvements	$ 69,812,200	$ 59,268	$ (1,342,945)	$ 68,528,523
Equipment	3,531,895	279,083		3,810,978
Less Accumulated Depreciation	(23,336,684)	(1,507,636)	529,917	(24,314,403)
Total Capital Assets, being depreciated	50,007,411	(1,169,285)	(813,028)	48,025,098
Capital Assets, not being depreciated				
Land	812,080			812,080
Total Governmental Activities Capital Assets	$ 50,819,491	$ (1,169,285)	$ (813,028)	$ 48,837,178

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

Instruction	$ 8,109
Operations and Maintenance	16,842
Transportation	102,722
Food Service Operations	3,609
Facility Acquisition	1,376,354
Total Depreciation Governmental Activities	$ 1,507,636

6. Accrued Salaries

Certified instructors of the District are contracted for nine months annually between Labor Day and June 1. These instructors, while only working nine months, are paid for their services in twelve equal monthly installments. On June 30 of each year they have completed their entire contract, but have only received 10/12 of the related compensation with the difference to be paid over the summer break. The difference, totaling $2,182,634, is reflected as an accrued expense at June 30, 2018.

7. *Long-Term Debt*

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

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

	Series 2012H Certificates of Participation		Series 2013 General Obligation Bonds	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2019	$ 834,556	$ 454,229	$ 80,000	$ 41,400
2020	859,642	428,766	85,000	39,750
2021	885,482	402,538	85,000	38,050
2022	912,098	375,521	85,000	35,925
2023	939,515	347,693	90,000	33,300
2024-2028	5,138,554	1,290,857	495,000	123,375
2029-2032	5,958,698	458,386	570,000	43,500
Total	$ 15,528,545	$3,757,990	$1,490,000	$ 355,300

Capital Lease Payable – In fiscal year 2017 the District entered into a lease agreement for 2014 Thomas C2 71 passenger bus. The lease was for $69,750. The lease is payable in 3 annual installments of $24,586, including interest at 2.920% beginning September 1, 2017. The lease is serviced by the General Fund and the bus serves as collateral. All payment obligations of the District are subject to annual appropriation by the Board of Education.

The annual requirements to amortize the capital lease are as follows:

	Capital Lease	
Fiscal Year Ending June 30	Principal	Interest
2019	$ 23,210	$ 1,375
2020	23,888	698
Total	$ 47,098	$ 2,073

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

	Long Term Debt July 1, 2017	Issued	Retired	Long Term Debt June 30, 2018
Long-Term Debt				
Series 2012H Certificate of Participation	$ 16,338,747		$ (810,202)	$ 15,528,545
Series 2013 General Obligation Bonds	1,570,000		(80,000)	1,490,000
Capital Lease	69,650		(22,552)	47,098
Total Long-Term Debt	$ 17,978,397	$ -	$ (912,754)	$ 17,065,643

8. *Fund Balance Restrictions and Assignments*

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

Restricted

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

increases. Fund balance reserved for emergencies consists of $850,000 in the General Fund.

Food service indicates the amount of fund balance that is restricted for future food service of the district. $133,452 is restricted in the Food Service Fund.

Debt Service indicates the amount of fund balance that is restricted for the repayment of the District's outstanding bonds. Fund balance restricted for debt service consists of $1,480,609 in the Bond Redemption Fund.

Capital Projects indicates the amount of fund balance that is restricted for future capital projects. Fund Balance restricted for the construction of a new high school and demolition of the old high school pursuant to the issuance of the 2012 Certificate of Participation Bonds and the 2013 General Obligation Bonds consist of $696,433. Fund balance restricted for capital project in the Capital Projects fund consists of $1,094,970.

Technology and Insurance indicates the amount ($356,750) for the insurance and technology programs.

Committed represents property tax paid by Kinder Morgan ($1,567,801). Kinder Morgan has appealed the assessed values for these funds and has appealed to the state. The Montezuma County (Cortez) Board of Education, per resolution, committed these funds until the process is resolved in the courts.

Assigned

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

General Fund	$ 5,498,612
Governmental Designated-Purpose Grants Fund	8,580
Totals	$ 5,507,192

9. *Budgets and Budgetary Accounting*

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

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Governmental Activities			
General Fund	$ 20,942,893	$ 19,380,185	$ 1,562,708
Food Service Fund	1,173,673	1,103,776	69,897
Governmental Designated Purpose Grants Fund	3,221,933	2,862,624	359,309
Bond Redemption Fund	2,841,601	1,412,151	1,429,450
High School Building Fund	1,819,051	1,123,211	695,840
Capital Projects Fund	1,383,378	298,741	1,084,637
Business-Type Activities			
Internal Service Fund Self Insurance Fund	4,693,711	2,591,372	2,102,339
Fiduciary Fund			
Student Trust Agency Fund	785,789	480,835	304,954

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

10. *Jointly Governed Organization*

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

11. *Defined Benefit Pension Plan*

Plan Description – Eligible employees of the District are provided with pensions through the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 if 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 (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided – As of December 31, 2017, PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.

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

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, 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 (AIR) for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement and benefit formula shown above considering a minimum 20 years of service credit, 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 provisions as of June 30, 2018. 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:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer Contribution Rate[1]	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund (HCTF) as specified in C.R.S. § 24-51-208(1)(f)[1]	-1.02%	-1.02%
Amount Apportioned to the SCHDTF[1]	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]	5.00%	5.50%
Total Employer Contribution Rate to the SCHDTF[1]	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SDHDTF from the District were $2,299,634 for the year ended June 30, 2018.

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

At June 30, 2018 the District reported a liability of $85,207,216 for its proportionate share of the net position liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The District proportion of the net pension liability was based on the District's contribution to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the Districts proportion was .2635020157 percent, which was decrease of .0072445334 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $16,517,049. As June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,566,602	
Changes in assumptions or other inputs	21,756,568	$ (138,062)
Net difference between projected and actual earnings on pension plan investment		(3,346,168)
Contributions subsequent to the measurement date	1,168,117	
	$ 24,491,287	$ (3,484,230)

$1,168,117 reported as deferred outflows or resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2018	$ 13,413,026
2019	7,614,832
2020	69,924
2021	(1,258,842)
	$ 19,838,940

Actuarial Assumptions – The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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 investments expense, 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

A discount rate of 4.78 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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 actuarial assumptions used the December 31, 2016, valuation was based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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

	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
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	100.00%	

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

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

- 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 3.50%.

- 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 and effective as of the measurement date, 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. 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 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and municipal bond index of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1 % Decrease (3.78%)	Current Discount Rate (4.78%)	1 % Increase (5.78%)
Proportionate share of the net pension liability	$ 86,059,288	$ 85,207,216	$ 84,355,144

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

Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the

proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.

- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018, the District reported a liability of $13,177,041 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the District proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	$38,495,882

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately $39,775,261 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

12. *Other Post-Employment Benefits*

Plan Description. Eligible employees of the District are provided with OPEB through the HCTF – a cost sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended, Colorado State law provisions may be amended from time to time by the Colorado General Assembly, Title 24, Article 51, Part 12 of the C.R.S., as amended, 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 the premium subsidies. 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 a www.copera.org/investments/per-financial.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure
The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from District were $124,233 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018 the District reported a liability of $1,945,774 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The District proportion of the net OPEB liability was based on District contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the District proportion was .1497209581 percent, which was a decrease of .0041746488 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the District recognized OPEB expense of $98,048. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 9,202	
Changes in assumptions or other inputs		$ -
Net difference between projected and actual earnings on pension plan investments		(32,552)
Contributions subsequent to the measurement date	62,282	
	$ 71,484	$ (32,552)

$62,282 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2019	$ (6,330)
2020	(6,330)
2021	(6,330)
2022	(6,326)
2023	1,809
2024	157
Total	$ (23,350)

Actuarial assumptions. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry Age
Price inflation	2.4 percent
Real wage growth	1.10 percent
Wage inflation	3.5 percent
Salary increases, including wage inflation	3.5 percent in aggregate
Long-term investment rate of return, net of pension plan investments expense, including price inflation	7.25 percent
Discount Rate	7.25 percent
Health care cost trend rates	
PERA Benefit Structure	
Service-based premium subsidy	0.00 percent
PERACare Medicare Plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%

2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on 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 for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 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 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on 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 based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition,

certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, 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 for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.3%
U.S. Equity - Small Cap	7.42%	4.8%
None U.S. Equity - Developed	18.55%	5.2%
None U.S. Equity - Emerging	5.83%	5.4%
Core Fixed Income	19.32%	1.2%
High Yield	1.38%	4.3%
Non U.S. Fixed Income - Developed	1.84%	0.6%
Emerging Market Debt	0.46%	3.9%
Core Real Estate	8.50%	4.9%
Opportunity Fund	6.00%	3.8%
Private Equity	8.50%	6.6%
Cash	1.00%	20.0%
Total	100.00%	

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

Sensitivity of the District proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB liability	$ 1,892,238	$ 1,945,774	$ 2,010,254

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- 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 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- 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.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits 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 HCTF's fiduciary net position was projected to make all projected future benefit payments of current

members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the District proportionate share of the net OPEB liability to changes in the discount rate. The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$ 1,965,232	$ 1,945,774	$ 1,926,316

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

13. *Defined Contribution Pension Plan*

Voluntary Investment Program

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

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The District has not agreed to match employee contributions. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended June 30, 2018, program members contributed $193,728 to the Voluntary Investment Program.

14. *Risk Management*

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

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

In addition, the District has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss for employee health and accident insurance. Under this program, the Fund provides coverage from the purchase of commercial insurance for a specific deductible of $120,000, with a maximum aggregate benefit of $1,000,000.

The plan received premiums of $2,873,164 and paid claims of $2,591,372 for the fiscal year. $2,861,858 of the premiums charged were paid by the District and member charter schools' as employee benefits.

15. Tax, Spending, and Debt Limitations

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

16. *Compliance with the Financial Policies and Procedures Handbook*

The school district is complying with the provisions of section 22-44-204(3), C.R.S., concerning the use of the Financial Policies and Procedures Handbook adopted by the State Board of Education." C.R.S. 29-1-603

17. *Commitments and Contingent Liabilities*

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

18. *Restatement of Net Position*

The School adopted GASB Statement 75 in the current fiscal year. This statement requires the District to report its proportionate share of net OPEB liabilities, along with deferred outflows and inflows of resources related to its involvement with the Health Care Trust of PERA see Footnote 5. Accordingly, the beginning net position of the governmental funds was decreased by $1,933,027 to reflect the net effect of the School's proportionate share of the above items on its net position at July 1, 2017.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Required Supplementary Information

June 30, 2018

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

Such information includes:

Schedule of the District's Pension Contributions
Schedule of the District's Proportionate Share of the Net Pension Liability
Schedule of the District's Other Post Employment Benefits (OPEB) Plan Contributions
Schedule of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Plan Liability

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
Schedule of the District's Pension Contributions

June 30, 2018
Last 10 Years*

	2018	2017	2016	2015
Statutorily required contributions	$ 2,299,634	$ 2,212,965	$ 2,178,998	$ 2,052,694
Contributions in relation to the statutory required contribution	2,299,634	2,212,965	2,178,998	2,052,694
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 12,179,678	$ 12,038,349	$ 12,288,408	$ 12,157,244
Contributions as a percentage of covered employee payroll	18.88%	18.38%	17.73%	16.88%

The amounts presented for each fiscal year were determined as of June 30.

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

Notes to Required Supplemental Information

See Note 11 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

June 30, 2018
Last 10 Years*

	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Proportionate Share of the Net Pension Liability				
District's proportionate share of the Net Pension Liability	0.02635021%	0.27074664%	0.28121454%	0.28997445%
District's proportionate share of the Net Pension Liability	$ 85,207,216	$ 80,611,744	$ 43,009,778	$ 39,301,278
District's covered employee payroll	$ 12,155,662	$ 12,133,120	$ 12,251,192	$ 12,141,293
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	700.97%	664.39%	351.07%	323.70%
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.13%	59.20%	64.07%

The amounts presented for each year were determined as of the calendar year that occurred within the fiscal year.

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

Notes to Required Supplemental Information

See Note 11 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Schedule of the District's Other Post Employment Benefits (OPEB) Plan Contributions

June 30, 2018
Last 10 Years*

	2018	2017
Statutorily required contributions	$ 124,233	$ 122,791
Contributions in relation to the statutory required contribution	124,233	122,791
Contribution deficiency (excess)	$ -	$ -
District's covered employee payroll	$ 12,179,678	$ 12,038,349
Contributions as a percentage of covered employee payroll	1.02%	1.02%

The amounts presented for each fiscal year were determined as of June 30.

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

Notes to Required Supplemental Information

See Note 11 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Schedule of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Plan Liability

June 30, 2018
Last 10 Years*

	12/31/2017	12/31/2016
Proportionate Share of the Net Pension Liability		
District's proportionate share of the Net Pension Liability	0.14972096%	0.15389561%
District's proportionate share of the Net Pension Liability	$ 1,945,774	$ 1,995,309
District's covered employee payroll	$ 12,155,662	$ 12,133,120
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	16.01%	16.45%
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.13%

The amounts presented for each year were determined as of the calendar year that occurred within the fiscal year.

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

Notes to Required Supplemental Information

See Note 11 in the accompanying Notes to the Financial Statements for factors that significantly affect trends in the amounts reported.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Other Supplementary Information

June 30, 2018

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

These statements and schedules include:

Budgetary Comparison Schedules
- Debt Service Fund
  - Bond Redemption Fund
- Capital Projects Fund
  - High School Building Fund
  - Capital Projects Fund
- Proprietary Fund
  - Self Insurance Fund
- Fiduciary Fund
  - Agency Fund
    - Pupil Activity Fund
- Component Units Combining Statements
  - Statement of Net Position
  - Statement of Activities

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

For the Year Ended June 30, 2018

	Budgeted Amounts			Variance Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Local sources				
Property tax	$ 1,476,500	$ 1,413,610	$ 1,455,260	$ 41,650
Earnings on investments	5,000	5,000	14,457	9,457
Other			52	52
Total local sources	1,481,500	1,418,610	1,469,769	51,159
Total revenues	1,481,500	1,418,610	1,469,769	51,159
Expenditures				
Debt Service				
Interest	521,949	521,949	521,949	-
Principal	890,202	890,202	890,202	-
Appropriated reserves	1,509,872	1,429,450		1,429,450
Total expenditures	2,922,023	2,841,601	1,412,151	1,429,450
Excess revenue over (under) expenditures	(1,440,523)	(1,422,991)	57,618	1,480,609
Net change in fund balance	(1,440,523)	(1,422,991)	57,618	1,480,609
Fund balance beginning of the year	1,440,523	1,422,991	1,422,991	-
Fund balance end of the year	$ -	$ -	$ 1,480,609	$ 1,480,609

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

High School

Capital Projects Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Earnings on investments	$ 475	$ 1,000	$ 1,593	$ 593
Total local sources	475	1,000	1,593	593
Total Revenues	475	1,000	1,593	593
Expenditures				
Support Programs				
Facilities acquisition	1,855,958	1,819,051	1,123,211	695,840
Total Support Programs	1,855,958	1,819,051	1,123,211	695,840
Total Expenditures	1,855,958	1,819,051	1,123,211	695,840
Excess revenues over (under) expenditures	(1,855,483)	(1,818,051)	(1,121,618)	696,433
Net Changes in Fund Balances	(1,855,483)	(1,818,051)	(1,121,618)	696,433
Fund Balances beginning of the year	1,855,483	1,818,051	1,818,051	-
Fund Balances end of the year	$ -	$ -	$ 696,433	$ 696,433

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

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Earnings on investments	$ 200	$ 300	$ 1,760	$ 1,460
Sale of asset	265,000	265,000	265,600	600
Insurance proceeds			19,216	19,216
Other local			2,208	2,208
Total local sources	265,200	265,300	288,784	23,484
State sources				
Grants	82,500	79,160	73,412	(5,748)
Total state sources	82,500	79,160	73,412	(5,748)
Federal sources				
Cash in Lieu of taxes	12,000	12,000	4,597	(7,403)
Total federal sources	12,000	12,000	4,597	(7,403)
Total Revenues	359,700	356,460	366,793	10,333
Support Programs				
Business			15	(15)
Operation and maintenance of plant	82,500	85,560	80,476	5,084
Food Service		30,000	22,877	7,123
Facilities acquisition	300,000	353,710	195,373	158,337
Appropriated reserves	631,841	914,108		914,108
Total Support Programs	1,014,341	1,383,378	298,741	1,084,637
Total Expenditures	1,014,341	1,383,378	298,741	1,084,637
Excess revenues over (under) expenditures	(654,641)	(1,026,918)	68,052	1,094,970
Other Financing Sources (Uses)				
Transfers in (out)		340,110	340,110	-
Total Other Financing Sources (Uses)	-	340,110	340,110	-
Net Changes in Fund Balances	(654,641)	(686,808)	408,162	1,094,970
Fund Balances beginning of the year	654,641	686,808	686,808	-
Fund Balances end of the year	$ -	$ -	$ 1,094,970	$ 1,094,970

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual

Proprietary Fund

Internal Service Fund

Self Insurance Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		(Non GAAP Basis) Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Operating Revenues				
Premium revenue	$ 2,527,000	$ 2,857,000	$ 2,873,164	$ 16,164
Total local sources	2,527,000	2,857,000	2,873,164	16,164
Operating Expenses				
Central service				
Administration fees	235,000	202,673	39,140	163,533
Medial and Prescription Claims	2,488,000	2,682,027	2,552,232	129,795
Appropriated reserves	1,616,124	1,809,011		1,809,011
Total operating expenses	4,339,124	4,693,711	2,591,372	2,102,339
Operating income (loss)	(1,812,124)	(1,836,711)	281,792	2,118,503
Non-Operating Revenue				
Local sources				
Earnings on investments	4,000	7,000	9,524	2,524
Change in net position non GAAP basis	(1,808,124)	(1,829,711)	291,316	2,121,027
Net position beginning of the year	1,808,124	1,829,711	1,829,711	-
Net position end of the year	$ -	$ -	$ 2,121,027	$ 2,121,027

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

Fiduciary Fund

Agency Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Other	$ 500,000	$ 500,000	$ 483,705	$ (16,295)
Total local sources	500,000	500,000	483,705	(16,295)
Total Revenues	500,000	500,000	483,705	(16,295)
Expenditures				
Other objects	500,000	500,000	480,835	19,165
Appropriated reserves	300,710	285,789		285,789
Total Expenditures	800,710	785,789	480,835	304,954
Total Expenditures	800,710	785,789	480,835	304,954
Net Change in Fund Balances	(300,710)	(285,789)	2,870	288,659
Due to agency recipients beginning of the year	300,710	285,789	285,789	-
Due to agency recipients end of the year	$ -	$ -	$ 288,659	$ 288,659

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

June 30, 2018

	Battlerock Charter School	Southwest Open School	Children's KIVA Montessori Charter School	Total
Assets				
Cash and investments	$ 183,275	$ 1,248,976	$ 205,772	$ 1,638,023
Grants receivable		34,675		34,675
Other receivables			3,760	3,760
Prepaid expenses			5,600	5,600
Capital assets - net of depreciation	-	611,896	21,269	633,165
Total Assets	183,275	1,895,547	236,401	2,315,223
Deferred Outflows of Resources				
Pensions, net of accumulated amortization	406,353	1,475,868	1,084,081	2,966,302
OPEB, net of accumulated amortization	1,400	4,248	9,535	15,183
Total Deferred Outflows of Resources	407,753	1,480,116	1,093,616	2,981,485
Liabilities				
Interfund	5,093			5,093
Accounts payable			6,894	6,894
Due to RE-1 School District	3,865	4,341	2,685	10,891
Accrued salaries and benefits payable	21,954	116,602	62,931	201,487
Long-term liabilities				
Net pension liability	1,398,972	5,138,764	2,785,084	9,322,820
Net OPEB liability	31,947	117,348	63,601	212,896
Total Liabilities	1,461,831	5,377,055	2,921,195	9,760,081
Deferred Inflows of Resources				
Pensions, net of accumulated amortization	57,206	210,131	114,058	381,395
OPEB, net of accumulated amortization	535	1,963	1,076	3,574
Total Deferred Inflows of Resources	57,741	212,094	115,134	384,969
Net Position				
Net investment in capital assets		611,896	21,269	633,165
Restricted				
TABOR	16,000	45,000	28,400	89,400
Capital projects	6,714	378,446		385,160
Unrestricted	(951,258)	(3,158,828)	(1,755,981)	(5,866,067)
Total Net Position	$ (928,544)	$ (2,123,486)	$ (1,706,312)	$ (4,758,342)

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

For the Year Ending June 30, 2018

	Battlerock Charter School	Southwest Open School	Children's KIVA Montessori Charter School	Total
Governmental Activities				
Expenses				
Instruction Program Services	$ 613,614	$ 1,086,928	$ 938,002	$ 2,638,544
Support Program Services			692,430	692,430
Students	1,605	278,169		279,774
Instructional staff	14,240	11,822		26,062
General administration	18,575	44,084		62,659
School administration	77,697	409,530		487,227
Business	79,222	111,649		190,871
Plant operation and maintenance	62,150	78,892		141,042
Student transportation	15,110	9,941		25,051
Central support services	7,462	25,017		32,479
Facilities acquisition	23,687			23,687
Depreciation excluding amount directly allocated to programs		32,534		32,534
Total Expenses	913,362	2,088,566	1,630,432	4,632,360
Business-type Activities				
Expenses				
Building corporation			3,591	3,591
Total Expenses	-	-	3,591	3,591
Program Revenues				
Charges for services			19,482	19,482
Operating grants and contributions	76,928	427,082	85,663	589,673
Capital grants and contributions	29,342	35,213	24,156	88,711
Total Program Revenues	106,270	462,295	129,301	697,866
General Revenues				
Per pupil charter school allocation	394,301	989,459	678,910	2,062,670
Intergovernmental				
Public Lands		5,402		5,402
Impact Aid		39,388		39,388
Contributions			113,670	113,670
Other	6,218	36,933	77,792	120,943
Total General Revenues	400,519	1,071,182	870,372	2,342,073
Changes in Net Position	(406,573)	(555,089)	(634,350)	(1,596,012)
Net Position Beginning of the Year, as restated	(521,971)	(1,658,397)	(1,071,962)	(3,252,330)
Net Position End of the Year	$ (928,544)	$ (2,213,486)	$ (1,706,312)	$ (4,848,342)

INFORMATION REQUIRED BY OVERSIGHT AUTHORITIES

Majors and Haley, P.C.
Certified Public Accountants

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montezuma County (Cortez) School District RE-1 as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Montezuma County (Cortez) School District RE-1's basic financial statements and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Majors and Haley PC

Majors and Haley, P.C.
Cortez, Colorado
October 29, 2018

Majors and Haley, P.C.
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Montezuma County (Cortez) School District RE-1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Montezuma County (Cortez) School District RE-1's major federal programs for the year ended June 30, 2018. The Montezuma County (Cortez) School District RE-1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Montezuma County (Cortez) School District RE-1's compliance.

Opinion on Each Major Federal Program

In our opinion, the Montezuma County (Cortez) School District RE-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Majors and Haley PC

Majors and Haley, P.C.
Cortez, Colorado
October 29, 2018

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-thru Number	Expenditures
U.S. Department of Agriculture			
Passed through the Colorado Department of Education			
School Breakfast Program	10.553	4553	$ 156,339
National School Lunch Program	10.555	4555	656,375
Special Milk Program for Children	10.556	4556	1,937
Total			814,651
Pass through the Colorado Department of Human Services			
Food Commodities	10.555	4555	79,491
SAE Reallocated Grant	10.558	4558	3,167
Total			897,309
U.S. Department of Education			
Direct program			
Impact Aid - P.L. 81-874	84.041	4041	625,514
Title VII - Indian Education	84.060	4060	151,675
Perkins	84.048	4048	56,961
Total			834,150
Passed through the Colorado Department of Education			
Title I Grants to Local Educational Agencies	84.010	4010	809,789
Title I Grants to Local Educational Agencies	84.010	5010	227,796
Total Title I			1,037,585
Title VI Student Support	84.424	4424	13,188
Title III Part A English Language Learners	84.365	4365	9,520
Improving Teacher Quality State Grants Title II Part A	84.367	4367	147,014
Title IIB Math and Science Partnership	84.366	5366	387,225
Title V Part B Rural Education	84.358	6358	43,802
Rural Education Title VI Part B	84.358	7358	13,252
School Improvement Grant	84.377	7377	198,037
Total			1,849,623
Total			2,683,773
Total Expenditures of Federal Awards			$ 3,581,082

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards present the activity of all federal award programs expended by Montezuma County (Cortez) School District RE-1 for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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

FOOD DISTRIBUTION

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

SUBRECIPIENTS

Montezuma County (Cortez) School District RE-1 had no sub-recipients of federal funds for the year ended June 30, 2018.

INDIRECT COST RATE

The District did not elect to use the 10 percent de minimus cost rate.

MONTETUMZA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the (general purpose) financial statements of Montezuma Cortez School District RE-1.

2. No significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.

3. No instances of noncompliance material to the (general purpose) financial statements of Montezuma Cortez School District RE-1 were disclosed during the audit.

4. The auditors' report on compliance for the major federal award programs for Montezuma Cortez School District RE-1 expressed an unqualified opinion on all major programs.

5. No instances of audit findings relating to major programs were disclosed during the audit.

6. The programs tested as major programs included:

   Title I CFDA Number 84.010

7. The threshold for distinguishing Types A and B programs was $750,000.

8. Montezuma Cortez School District RE-1 was determined to be a low-risk auditee.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2018

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

Colorado Department of Education

Auditors Integrity Report

District: 2035 - MONTEZUMA-CORTEZ RE-1
Fiscal Year 2017-18
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	7,027,285	19,593,897	18,528,197	8,092,985
18 Risk Mgmt Sub-Fund of General Fund	141,811	157,978	119,610	180,178
19 Colorado Preschool Program Fund	49,931	700,404	750,334	0
Sub- Total	**7,219,026**	**20,452,278**	**19,398,142**	**8,273,163**
11 Charter School Fund	971,504	2,419,565	2,458,549	932,520
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	138,473	1,103,944	1,103,777	138,641
22 Govt Designated-Purpose Grants Fund	8,756	3,250,480	3,250,656	8,580
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	1,422,991	1,469,770	1,412,151	1,480,609
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	1,818,051	1,593	1,123,211	696,433
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,080,965	771,654	372,489	1,480,130
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	**12,659,767**	**29,469,284**	**29,118,975**	**13,010,076**
Proprietary				
50 Other Enterprise Funds	0	149,638	3,591	146,047
64 (63) Risk-Related Activity Fund	1,829,711	20,830	-270,486	2,121,027
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	**1,829,711**	**170,468**	**-266,895**	**2,267,074**
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	289,631	486,200	482,079	293,752
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	**289,631**	**486,200**	**482,079**	**293,752**

FINAL