

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

Independent Accountants' Reports
And
Basic Financial Statements

June 30, 2015

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2015, 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.

Auditors' 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 5.4 percent, 32.8 percent and 7.5 percent, respectively, of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Food Service Fund and Governmental Designated-Purpose Grants Fund for the year then ended in conformity 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 on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montezuma County (Cortez) School District RE-1's basic financial statements. The budgetary comparison schedules, and Colorado Department of Education Auditors' Integrity Report are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, the 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 relates 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, other supplemental information, as listed in the table of contents, 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, 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 on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montezuma County (Cortez) School District RE-1's internal control over financial reporting and compliance.

Majors and Haley PC

Majors and Haley, P.C.
November 9, 2015

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2015

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, 2015. 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 increased \$15,145,254 as a result of this year's operations
 - The increase would have been greater if the District did not implement GASB 68 relating to how pension expenses are presented.
 - The District showed an increase of \$16,345,404 before the net pension expense of \$1,200,150. This increase is due, for the most part, to the construction of the new high school.
- The District's total revenue was \$39,712,089 which is an increase of \$9,599,750 from \$30,112,339 in the prior year.
 - General revenues (primarily state equalization and property tax) accounted for \$19,763,661 in revenue or 49.8% of all revenues. Program specific revenues in the form of charges for services and operating grants account for \$5,133,250 (12.9%) and the remaining 37.3% or \$14,815,178 is the State of Colorado Best Grant for the construction of the new high school.
- The District incurred \$24,566,835 in expenses which is an increase of \$2,348,946 from \$22,217,889 in the prior year. \$19,948,428 of these expenses were offset by program specific charges for services, grants and contributions. The general revenues of \$19,763,661 were adequate to cover the expenditures that were not offset by program specific revenues.
- The General Fund reported a \$1,153,849 increase in fund balance from \$2,765,761 in the prior year to \$3,919,610. This increase is 4.2%.
 - The General Fund revenues increased \$1,570,294 from \$17,774,169 to \$19,344,463, for an 8.8% increase.
 - The General Fund expenditures, including transfers of \$350,000 to the Self Insurance Fund, increased \$121,465 from \$18,069,149 in the prior year to \$18,190,614.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Statements

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

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

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

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2015

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

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

Fund Financial Statements

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

The District uses three types of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. Governmental fund information helps one determine whether there are more, or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them. The District maintains six different governmental funds. They are the General Fund, Food Service Fund, Governmental Designated-Purpose Grants Fund, Bond Redemption Fund, the High School Building Fund and the Capital Projects Fund. They are all considered major funds.
- **Proprietary funds** - Services for which the District charges a fee are generally reported in proprietary funds. The District maintains one type of proprietary fund. The internal service fund. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the employee medical benefit activities related to the District's employee medical benefit insurance needs.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2015

The Food Service fund was reclassified from an enterprise fund to a special revenue fund at the beginning of fiscal year 2015.

- **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 \$5,690,849 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 \$25,421,242 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 \$13,060,098 of the net position represents resources that are subject to external restrictions on how they may be used. \$760,000 of the restricted net position is an emergency reserve required by the Tabor amendment; \$1,316,535 is for the repayment of the general obligation bonds and \$10,983,563 is for the construction of the high school.

The remaining (\$32,790,491) is unrestricted net position. The negative balance is due to the implementation of GASB 68, resulting in a net pension liability of \$39,301,278, 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, 2015 and 2014. Fiscal year 2014 financial information has been restated for the reclassification of the Food Service Fund from an enterprise fund to a special revenue fund and the charter schools to discretely presented component units. However, the financial information has not been restated for the effects of the implementation of GASB 68 because comparable information is not available.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

As of and for the Year Ended June 30, 2015

Table 1
Comparative Summary Statement of Net Position
At June 30

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 20,608,402	\$ 29,489,187
Capital assets, net of depreciation	45,040,154	20,642,467
Total assets	<u>65,648,556</u>	<u>50,131,654</u>
Deferred Outflows of Resources	<u>1,590,008</u>	
Liabilities		
Current liabilities	2,490,861	2,481,034
Noncurrent liabilities	58,920,190	20,435,234
Total liabilities	<u>61,411,051</u>	<u>22,916,268</u>
Deferred Inflows of Resources	<u>136,664</u>	<u>155,737</u>
Net Position		
Invested in capital assets	25,421,242	207,233
Restricted	13,060,098	23,213,467
Unrestricted	(32,790,491)	3,638,949
Total net position	<u>\$ 5,690,849</u>	<u>\$ 27,059,649</u>

At the close of the most recent fiscal year current assets, \$20,608,402, comprised 31.4% of total assets, decreasing from 58.8% in the prior year. The investments in capital assets, less depreciation make up the remaining 68.6% of assets. Accrued wages and benefits represent 83.4% 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 \$9,827 from \$2,481,034 in the prior year to \$2,490,861. There was a net increase in noncurrent liabilities from the prior year of \$38,484,956 as a result of the net pension liability of \$39,301,278 net of the \$816,322 in current year debt payments. Deferred outflows of resources net of deferred inflows of resources increased \$1,297,607, mostly due to the implementation of GASB 68.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As of and for the Year Ended June 30, 2015

The following table indicates the summary of Changes in Net Position for Governmental Activities in the fiscal year 2015 and 2014. Fiscal year 2014 financial information has been restated for the reclassification of the Food Service Fund from an enterprise fund to a special revenue fund and the charter schools to discretely presented component units. However, the financial information has not been restated for the effects of the implementation of GASB 68 because comparable information is not available.

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

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues		
Charges for services	\$ 1,029,644	\$ 781,337
Operating grants and contributions	4,103,606	3,105,309
Capital grants and contributions	14,815,178	7,599,366
General revenues		
Taxes	14,220,824	11,900,420
State Equalization	4,476,113	6,095,756
Other	1,066,724	860,467
Total revenues	<u>39,712,089</u>	<u>30,342,655</u>
Expenses		
Instruction	12,902,315	11,612,867
Students and Instructional staff	2,861,753	2,624,784
Administration and Business	2,936,797	2,702,109
Operations and maintenance of plant	2,042,887	1,809,679
Student transportation	1,098,566	1,126,122
Central and other support services	276,490	527,055
Food service operations	1,161,758	1,039,944
Facilities acquisition	689,655	633,062
Interest on long-term debt	596,614	620,290
Total expenses	<u>24,566,835</u>	<u>22,695,912</u>
Increase (decrease) in net position	<u>\$ 15,145,254</u>	<u>\$ 7,646,743</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

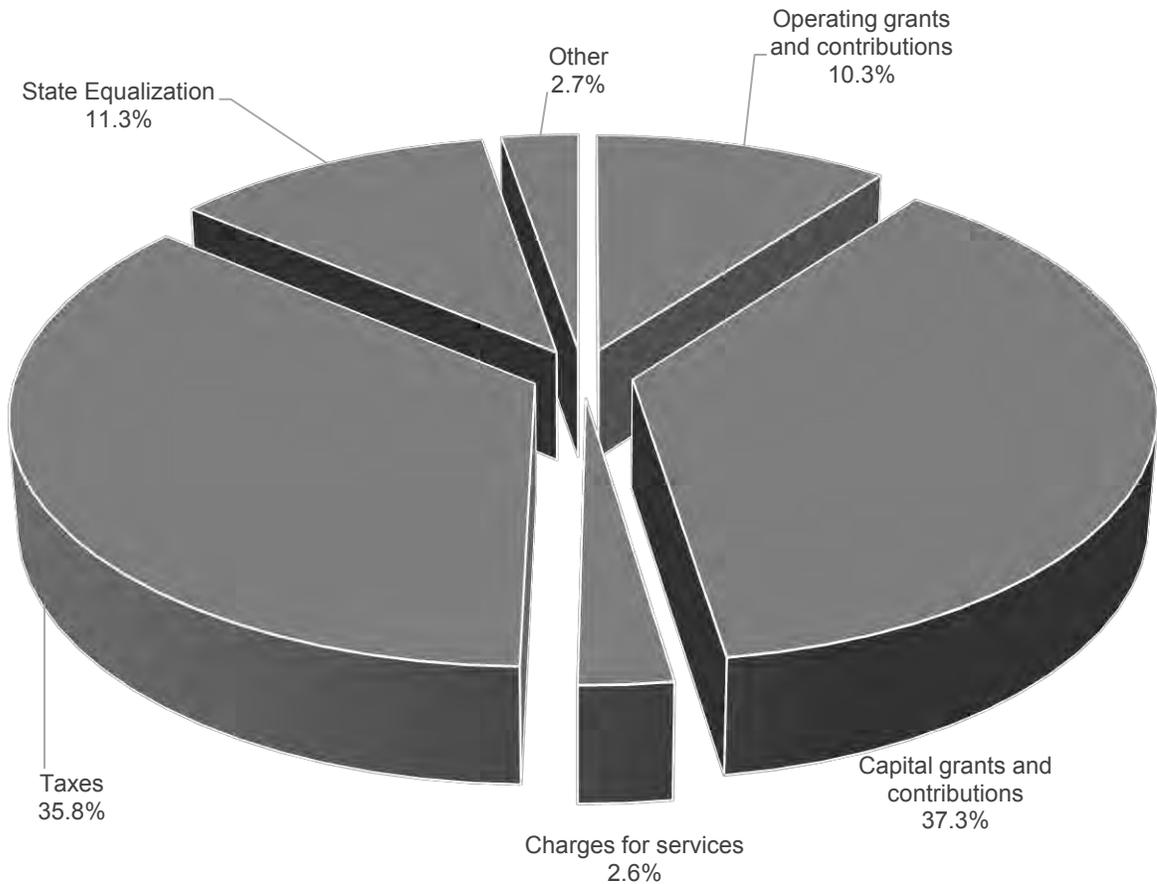
**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As of and for the Year Ended June 30, 2015

State equalization and taxes accounted for most of the District's total revenue, with each contributing 11.3 percent and 35.8 percent respectively. Another 47.6 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, (53.8 percent). The District's administrative and business activities accounted for 12.3 percent of total costs. See Table 4.

Table 3
Sources of Revenue for Fiscal Year 2015

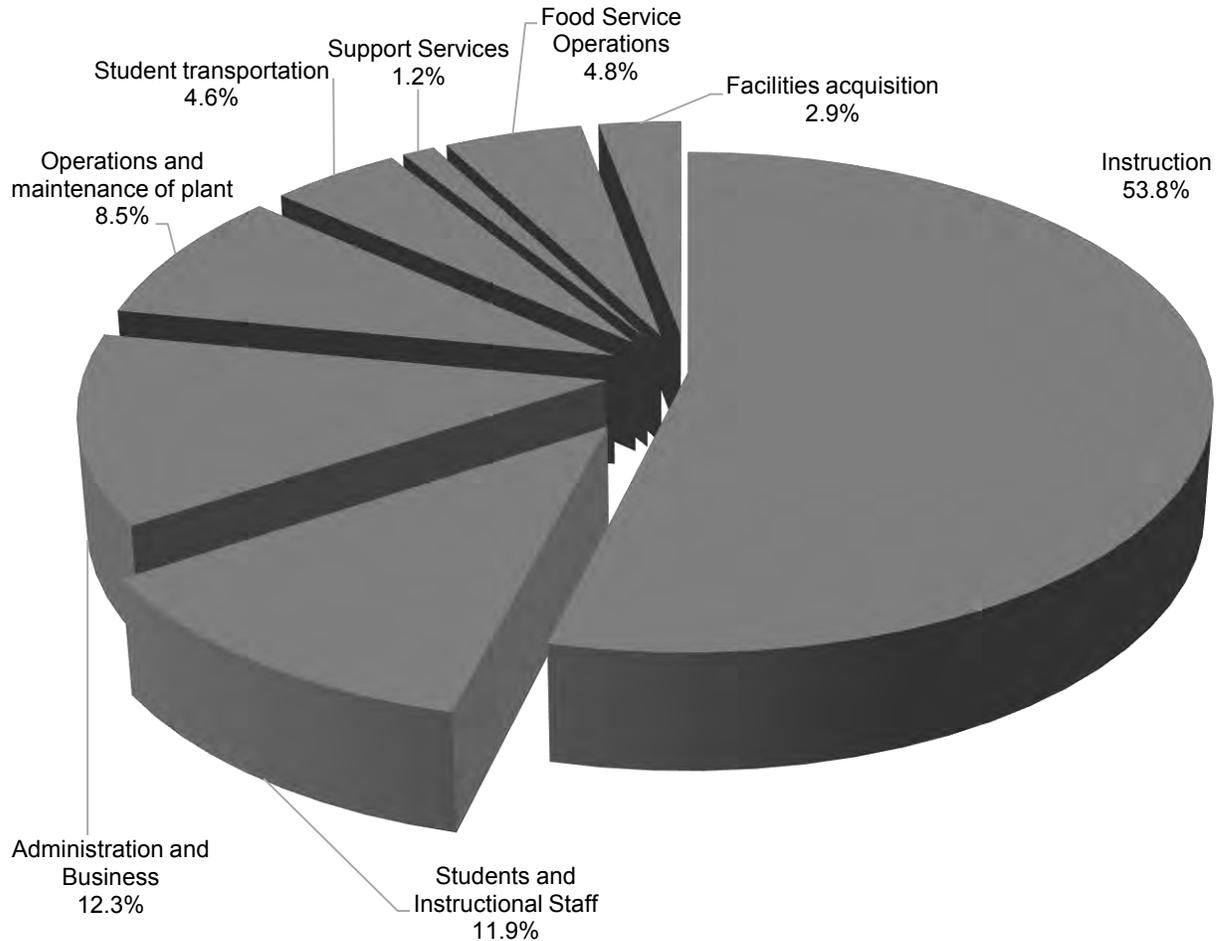


MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

As of and for the Year Ended June 30, 2015

Table 4
Expenses for Fiscal Year 2015



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994 (SFA). Under the SFA the District received \$6,764.71 per funded student. In fiscal year 2015 the funded pupil count was 2,728.9. Charter Schools accounted for 262.18 of this funded pupil count. Funding for the SFA comes from property taxes, specific ownership taxes and state equalization. The District receives approximately 34 percent of this funding from state equalization while the remaining SFA funding amounts consist of property and specific ownership taxes.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

As of and for the Year Ended June 30, 2015

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	
	2015	2014	2015	2014
Instruction	\$ 12,902,315	\$ 11,612,867	\$ 10,770,157	\$ 9,927,002
Students and Instructional staff	2,861,753	2,624,784	1,644,770	1,571,889
Administration and Business	2,936,797	2,702,109	2,595,825	2,410,253
Operations and maintenance of plant	2,042,887	1,809,679	2,001,265	1,838,767
Student transportation	1,098,566	1,126,122	835,474	858,737
Central and other support services	276,490	527,055	269,242	505,528
Food service operations	1,161,758	1,039,944	30,583	
Facilities acquisition	689,655	633,062	(14,125,523)	(6,490,200)
Interest on long-term debt	596,614	620,290	596,614	620,290
Total	\$ 24,566,835	\$ 22,695,912	\$ 4,618,407	\$ 11,242,266

- The cost of all governmental activities during the year was \$24,566,835.
- Some of the cost was financed by the users of the District's programs (\$1,029,644).
- Federal and state government subsidized \$18,918,784. \$14,775,445 of this was the Best grant for the high school.
- However, most of the District's costs (\$19,763,661) were financed by State and District taxpayers. This portion of governmental activities was financed for the most part with \$4,476,113 in state equalization, net of per pupil charter school allocation, from the School Finance Act of 1994 (SFA) and \$14,220,824 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 five funds that are considered major under GASB 34 reporting requirements. Information about the

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Year Ended June 30, 2015

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 \$39,704,814 and expenditures and other financing uses of \$48,838,113.

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 \$1,380,131 below budget.

CAPITAL ASSET ADMINISTRATION

By the end of fiscal year 2015, the District has invested \$65,630,343 in land, buildings, and equipment (including vehicles). Table 6 shows capital assets for 2015 compared to 2014:

Table 6
Capital Assets
At June 30

	Governmental Activities	
	2015	2014
Land	\$ 812,080	\$ 812,080
Construction in Progress	32,400,956	7,364,444
Buildings	29,058,787	29,619,135
Equipment	3,358,520	3,292,739
Total	<u>\$ 65,630,343</u>	<u>\$ 41,088,398</u>

Additional information on the District's capital assets can be found in Note 5 on page 32 of this report.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

As of and for the Year Ended June 30, 2015

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, 2014 the balance of these bonds was \$20,435,234. During fiscal year 2015 the District paid principal of \$816,322 to take the balance at June 30, 2015 to \$19,618,912. Additional information can be found in Note 7 on page 34 of this report.

CHARTER SCHOOLS

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

June 30, 2015

	<u>Primary Government</u>	<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Charter Schools</u>
Assets		
Cash and investments	\$ 10,778,254	\$ 1,277,047
Cash with fiscal agent	9,173,434	
Taxes receivable	312,507	
Interfund receivable	46,982	
Due (to) from District/Charter Schools	(36,677)	36,677
Intergovernmental accounts receivable	88,836	
Grants accounts receivable	169,014	87,904
Other receivables	67,820	814
Inventories	8,232	
Prepaid expenses		21,045
Capital assets - net of depreciation	45,040,154	623,294
Total Assets	65,648,556	2,046,781
Deferred Outflows of Resources		
Pensions, net of accumulated amortization	1,590,008	147,848
Liabilities		
Interfund payable	46,982	
Accounts payable	140,042	5,425
Accrued salaries and benefits payable	2,076,389	192,998
Grants deferred revenue	209,253	
Other current liabilities	18,195	
Long-term liabilities		
Due within one year	843,606	
Due in more than one year	18,775,306	
Net pension liability	39,301,278	3,448,125
Total Liabilities	61,411,051	3,646,548
Deferred Inflows of Resources		
Unearned revenue - property tax	133,729	
Pensions, net of accumulated amortization	2,935	257
Total Deferred Inflows of Resources	136,664	257
Net Position		
Net investment in capital assets	25,421,242	623,294
Restricted		
TABOR	760,000	67,500
Debt service	1,316,535	
Capital projects	10,983,563	
Unrestricted	(32,790,491)	(2,142,970)
Total Net Position	\$ 5,690,849	\$ (1,452,176)

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2015

	Expenses	Program revenues			Net (expenses) revenues and changes in net position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Units Charter Schools
Primary Government						
Governmental Activities						
Instructional program services	\$ 12,902,315	\$ 751,749	\$ 1,380,409			\$ (10,770,157)
Support program services						
Students	1,293,691		407,732			(885,959)
Instructional staff	1,568,062		809,251			(758,811)
General administration	793,729		122,496			(671,233)
School administration	1,712,531		162,748			(1,549,783)
Business	430,537		55,728			(374,809)
Plant operation and maintenance	2,042,887	41,622				(2,001,265)
Student transportation	1,098,566	353	262,739			(835,474)
Central support services	255,911	7,248				(248,663)
Other support services	20,579					(20,579)
Food service operations	1,161,758	228,672	902,503			(30,583)
Facilities acquisition	689,655			\$ 14,815,178		14,125,523
Interest on long-term debt	596,614					(596,614)
Total Governmental Activities	<u>24,566,835</u>	<u>1,029,644</u>	<u>4,103,606</u>	<u>14,815,178</u>		<u>(4,618,407)</u>
Total Primary Government	<u>\$ 24,566,835</u>	<u>\$ 1,029,644</u>	<u>\$ 4,103,606</u>	<u>\$ 14,815,178</u>		<u>(4,618,407)</u>
Component Units - Charter Schools	<u>\$ 3,395,554</u>	<u>\$ 33,971</u>	<u>\$ 728,645</u>	<u>\$ 392,249</u>		<u>\$ (2,240,689)</u>
General Revenues						
Property tax for general purposes				11,657,721		
Property tax for repayment of debt				1,515,431		
Specific ownership tax for general purposes				1,047,672		
Intergovernmental						
State Equalization				6,249,685		
Per pupil charter school allocation				(1,773,572)		1,773,572
Mineral leasing				213,998		
Public lands				105,486		7,589
Impact aid				611,544		54,055
Miscellaneous				135,696		3,382
Total General Revenues				<u>19,763,661</u>		<u>1,838,598</u>
Changes in Net Position						
Net Position Beginning of the Year				(9,454,405)		(1,050,085)
Net Position End of the Year				<u>\$ 5,690,849</u>		<u>\$ (1,452,176)</u>

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Governmental Funds
Balance Sheet

June 30, 2015

	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	\$ 5,713,546	\$ 325,986	\$ 118,743	\$ 1,292,099	\$ 1,879,773	\$ 974,970	\$ 10,305,117
Cash with fiscal agent	29,768			3,876	9,103,790		9,137,434
Taxes receivable	276,568			35,939			312,507
Interfund receivable	(83,499)		130,481				46,982
Due to Charter Schools	(36,677)						(36,677)
Intergovernmental accounts receivable	88,836						88,836
Grants accounts receivable			169,014				169,014
Other receivables	67,820						67,820
Inventories		8,232					8,232
Total Assets	\$ 6,056,362	\$ 334,218	\$ 418,238	\$ 1,331,914	\$ 10,983,563	\$ 974,970	\$ 20,099,265
Liabilities							
Interfund payable	\$ 36,677		\$ 10,305				\$ 46,982
Accounts payable	138,425	\$ 64	1,553				140,042
Accrued salaries and benefits payable	1,801,491	65,444	209,454				2,076,389
Grants deferred revenue	23,614		185,639				209,253
Other current liabilities	18,195						18,195
Total Liabilities	2,018,402	65,508	406,951				2,490,861
Deferred Inflows of Resources							
Unearned revenue - property tax	118,350			15,379			133,729
Fund Balances							
Restricted							
TABOR	760,000						760,000
Debt service				1,316,535			1,316,535
Capital projects					10,983,563		10,983,563
Unrestricted							
Assigned for next year's expenditures	3,159,610	268,710	11,287			\$ 974,970	4,414,577
Total Fund Balances	3,919,610	268,710	11,287	1,316,535	10,983,563	974,970	17,474,675
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,056,362	\$ 334,218	\$ 418,238	\$ 1,331,914	\$ 10,983,563	\$ 974,970	\$ 20,099,265

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

Total Fund Balance Governmental Funds \$ 17,474,675

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	\$ 65,630,343	
Accumulated depreciation	(20,590,189)	
	<hr/>	45,040,154

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

Due within one year	(843,606)	
Due in more than one year	(18,775,306)	
Net pension liability	(39,301,278)	
Deferred outflows of resources related to pensions - net	1,590,008	
Deferred inflows of resources related to pensions - net	(2,935)	
	<hr/>	(57,333,117)

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.

509,137

Total Net Position Governmental Activities **\$ 5,690,849**

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, 2015

	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	\$ 12,727,938			\$ 1,517,811			\$ 14,245,749
Other	540,404	\$ 230,617	\$ 358,437	941	\$ 1,883	\$ 859	1,133,141
Intermediate sources	318,976					507	319,483
State sources							
State Equalization	6,249,685						6,249,685
Per pupil charter school allocation	(1,773,572)						(1,773,572)
Grants	669,488	18,559	486,286		14,775,445	39,733	15,989,511
Federal sources							
Grants	611,544	785,373	2,143,900				3,540,817
Total Revenues	19,344,463	1,034,549	2,988,623	1,518,752	14,777,328	41,099	39,704,814
Expenditures							
Instructional program services	10,798,380		1,365,356				12,163,736
Support program services							
Students	821,421		391,112				1,212,533
Instructional staff	745,226		809,251				1,554,477
General administration	634,467		122,496				756,963
School administration	1,445,810		141,007				1,586,817
Business	349,938		55,728			17	405,683
Plant operation and maintenance	1,944,370					30,556	1,974,926
Student transportation	915,017		3,242			58,201	976,460
Central support services	163,263						163,263
Other support services	18,878						18,878
Food service operations		1,045,592	98,571				1,144,163
Facilities acquisition	3,844				25,036,513	76,921	25,117,278
Debt service				1,412,936			1,412,936
Total Expenditures	17,840,614	1,045,592	2,986,763	1,412,936	25,036,513	165,695	48,488,113
Excess revenues over (under) expenditures	1,503,849	(11,043)	1,860	105,816	(10,259,185)	(124,596)	(8,783,299)
Other Financing Sources (Uses)							
Transfers in (out)	(350,000)						(350,000)
Total Other Financing Sources (Uses)	(350,000)						(350,000)
Net Change in Fund Balances	1,153,849	(11,043)	1,860	105,816	(10,259,185)	(124,596)	(9,133,299)
Fund Balances Beginning of the Year	2,765,761	279,753	9,427	1,210,719	21,242,748	1,099,566	26,607,974
Fund Balances End of the Year	\$ 3,919,610	\$ 268,710	\$ 11,287	\$ 1,316,535	\$ 10,983,563	\$ 974,970	\$ 17,474,675

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, 2015

Net Change in Fund Balances Governmental Funds \$ (9,133,299)

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

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

Capital outlay	\$ 25,130,042	
Depreciation expense	(732,354)	
		24,397,688

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

Pension contributions	2,060,234	
Pension expense	(3,260,384)	
Principal payment on long-term debt	816,322	
		(383,828)

The change in net position of the internal service fund is reported with governmental activities. 264,693

Change in Net Position of Governmental Activities \$ 15,145,254

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Proprietary Fund
Statement of Net Position

June 30, 2015

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Assets	
Current Assets	
Cash and investments	\$ 473,137
Cash with fiscal agent	36,000
Total Current Assets	<u>509,137</u>
Total Assets	<u>509,137</u>
Net Position	
Unrestricted	509,137
Total Net Position	<u>\$ 509,137</u>

The accompanying notes are an integral part of this statement.

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

For the Year Ended June 30, 2015

	Governmental Activities
	Internal Service Fund
	Self-Insurance Fund
Operating Revenues	
Premiums	\$ 7,248
Operating Expenses	
Central service	
Purchased services	
Other	(92,582)
Operating income (loss)	(85,334)
Non-Operating Revenue (Expense)	
Local sources	
Earnings on investments	27
Income (loss) before operating transfers	(85,307)
Operating Transfers	
Transfers in	350,000
Net income (loss)	264,693
Net Position Beginning of the Year	244,444
Net Position End of the Year	\$ 509,137

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, 2015

	Governmental Funds
	Internal Service Fund
	Self-Insurance Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 69,956
Cash payments to suppliers for goods and services	(62,365)
Net Cash Flows provided (used) by Operating Activities	<u>7,591</u>
Cash Flows from Noncapital Financing Activities	
Operating transfers in	350,000
Net Cash Flows provided (used) by Noncapital Financing Activities	<u>350,000</u>
Cash Flows from Investing Activities	
Earnings on investments	27
Net Cash Flows provided (used) by Investing Activities	<u>27</u>
Net Increase (Decrease) in Cash and Cash Equivalents	357,618
Cash and Cash Equivalents Beginning of the Year	151,519
Cash and Cash Equivalents End of the Year	<u>\$ 509,137</u>
Reconciliation of operating income (loss) to Net Cash provided (used) by Operating Activities	
Operating income (loss)	<u>\$ (85,334)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
(Increase) or decrease in	
Due from other funds	5,111
Other Receivables	57,597
Prepaid Expenses	30,217
Increase or (decrease) in	
Accrued salaries and benefits payable	
Total adjustments	<u>92,925</u>
Net Cash Flows provided (used) by Operating Activities	<u>\$ 7,591</u>

The accompanying notes are integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Fiduciary Fund

Statement of Fiduciary Net Position

As of June 30, 2015

	<u>Agency Fund</u>
Assets	
Cash	\$ 238,412
Total Assets	<u>\$ 238,412</u>
Liabilities	
Accounts payable	\$ 549
Due to agency recipients	237,863
Total Liabilities	<u>\$ 238,412</u>

The accompanying notes are an integral part of this statement.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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 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). In fiscal year 2015, the District adopted GASB Statement 68.

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

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

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

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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.

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

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

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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. The Fund was reclassified from an enterprise fund to a special revenue fund at the beginning of fiscal year 2015.

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:

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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 does not present results of operations or a measurement focus. The District has one agency fund, the Pupil Activity Fund.

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

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

Due to/from Charter Schools - Due to/from Charter Schools represents amounts that are due to/from the Charter Schools. The amounts are normal transactions that are paid in the next three 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 three 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 in the Food Service Fund consists of both expendable supplies held for consumption and the cost of goods held for resale, the cost of which is recorded as an expense as they are used. Inventories are valued at cost using the first-in, first-out concept.

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.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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 changed in fund balance.

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

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

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

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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 business manager, per the District policy.
- Unassigned fund balance represents resources with residual net resources.

Restricted fund balance consists of required TABOR reserves of \$760,000, debt service per covenants of \$1,316,535 and the High School Capital Projects of \$10,983,563.

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.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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.

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

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

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

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales related to food service. 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:

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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 statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

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

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Credit risk in the portfolio is minimized by investing the majority

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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, 2015, 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 a www.colotruster.com.

At June 30, 2015, the carrying amount of the District's cash and investments was \$11,016,666, including \$238,412 of agency fund deposits. The District's bank balances were \$4,363,538 and COLOTRUST balances were \$7,182,416. The District's bank balances at June 30, 2015 and during the year ended June 30, 2015 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, 2015 are as follows:

Fund	Due To	Due From	Transfer In	Transfer Out
General Fund	\$ (83,499)	\$ 36,677		\$ 350,000
Governmental Designated Purpose Grants Fund	130,481	10,305		
Internal Service Fund - Self Insurance Fund			\$ 350,000	
Totals	\$ 46,982	\$ 46,982	\$ 350,000	\$ 350,000

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

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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, 2015 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Deferred Revenue</u>
Governmental Designated Purpose Grants Fund		
Local Grants		\$ 30,934
State Grants		
From Colorado Department of Education		
ELPA		6,021
Expelled Students		8,845
School Counselor		299
Read Act		23,614
Educator Effectiveness		32,716
Turnaround Leadership		33,889
Other Grants	\$ 5,451	34,985
Federal Grants		
From Colorado Department of Education		
Title I	100,589	
Title II Part A Teacher Quality	13,162	
Kiva Charter School	9,080	
21st Century	5,405	
Graduation Pathways	3,857	
Title VI Part B Rural and Low Income	2,638	
Other Grants	28,832	37,950
 Totals	 <u>\$ 169,014</u>	 <u>\$ 209,253</u>

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5. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 follows:

	<u>Capital Assets July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Capital Assets June 30, 2015</u>
Governmental Activities				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 29,619,135	\$ 27,748	\$ (588,096)	\$ 29,058,787
Equipment	3,292,739	65,781		3,358,520
Less Accumulated Depreciation	(19,848,341)	(732,354)	(9,494)	(20,590,189)
Total Capital Assets, being depreciated	13,063,533	(638,825)	(597,590)	11,827,118
Capital Assets, not being depreciated				
Land	812,080			812,080
Construction in Progress	7,364,444	25,036,512		32,400,956
Total Governmental Activities Capital Assets	21,240,057	24,397,687	(597,590)	45,040,154
Business-type Activities				
Capital Assets, being depreciated				
Equipment	394,127	(394,127)		-
Less Accumulated Depreciation	(376,908)	376,908		-
Total Business-type Activities, being depreciated	17,219	(17,219)	-	-
Total District	\$ 21,257,276	\$ 24,380,468	\$ (597,590)	\$ 45,040,154

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

Instruction	\$ 4,525
Operations and Maintenance	14,661
Transportation	72,922
Food Service Operations	3,609
Facility Acquisition	636,637
Total Depreciation Governmental Activities	\$ 732,354

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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 \$2,076,389, is reflected as an accrued expense at June 30, 2015.

7. Long-Term Debt

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

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

<u>Fiscal Year Ending June 30</u>	<u>Series 2012H</u> <u>Certificates of Participation</u>		<u>Series 2013</u> <u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 763,606	\$ 526,246	\$ 80,000	\$ 43,200
2017	786,559	502,948	80,000	44,600
2018	810,202	478,949	80,000	43,000
2019	834,556	454,229	80,000	41,400
2020	859,642	428,766	85,000	39,750
2021-2025	4,701,697	1,734,279	450,000	165,475
2026-2030	5,452,116	972,582	525,000	92,775
2031-2032	3,680,534	168,134	350,000	15,900
Total	\$ 17,888,912	\$ 5,266,133	\$ 1,730,000	\$ 486,100

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

	Long Term Debt <u>July 1, 2014</u>	<u>Issued</u>	<u>Retired</u>	Long Term Debt <u>June 30, 2015</u>
Long-Term Debt				
Series 2012H Certificate of Participation	\$ 18,630,234		\$ (741,322)	\$ 17,888,912
Series 2013 General Obligation Bonds	1,805,000		(75,000)	1,730,000
Total Long-Term Debt	<u>\$20,435,234</u>	<u>\$ -</u>	<u>\$ (816,322)</u>	<u>\$ 19,618,912</u>

8. Fund Balance Restrictions and Assignments

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

Restricted

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

Capital Projects indicates the amount of fund balance that is restricted for the construction of a new high school pursuant to the issuance of the 2012 Certificate of Participation Bonds and the 2013 General Obligation Bonds. Fund balance restricted for capital construction consists of \$10,983,563 in the High School Building Fund.

Debt Service indicates the amount of fund balance that is restricted for the repayment of the District's outstanding bonds. Fund balance restricted for debt service consists of \$1,316,535 in the Bond Redemption Fund.

Assigned

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

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General Fund	\$ 3,159,610
Food Service Fund	268,710
Governmental Designated-Purpose Grants Fund	11,287
Capital Projects Fund	974,970
 Totals	 <u>\$ 4,414,577</u>

9. Budgets and Budgetary Accounting

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

	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Activities			
General Fund	\$ 19,570,745	\$ 18,190,614	\$ 1,380,131
Food Service Fund	1,083,875	1,045,592	38,283
Governmental Designated Purpose Grants Fund	4,014,582	2,986,763	1,027,819
Bond Redemption Fund	1,463,220	1,412,936	50,284
High School Building Fund	37,563,797	25,036,513	12,527,284
Capital Projects Fund	898,276	165,695	732,581
Business-Type Activities			
Internal Service Fund			
Self Insurance Fund	3,194,494	92,582	3,101,912
Fiduciary Fund			
Pupil Activity Agency Fund	819,383	689,825	129,558

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

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financial interest in or ongoing financial responsibility for the BOCES. Financial statements for the BOCES can be obtained by contacting the Director of Business Services at (970)247-3261. The District had no debt with BOCES at year end.

11. *Defined Benefit Pension Plan*

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

Benefits Provided – Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly.

The SCHDTF serves as a defined benefit retirement plan where retirees receive a predictable monthly benefit for their lifetime, and generally, an increase each year, as eligible. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. Title 24-51-602, 604, 1713, and 1714.

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State Statutes.

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Benefit recipients who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless the plan has a negative investment year, in which case the annual increase for the next three years is the lessor of 2 percent or the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients who began eligible employment after January 1, 2007 receive an annual increase of the lessor of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

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

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

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

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
	<hr/>	<hr/>
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund (HCTF) as specified in C.R.S. § 24-51-208(1)(f) ¹	<hr/>	<hr/>
	-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	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	3.50%	4.00%
	<hr/>	<hr/>
Total Employer Contribution Rate to the SCHDTF ¹	<u>16.43%</u>	<u>17.33%</u>

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

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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 \$2,052,694 for the year ended June 30, 2015.

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

At June 30, 2015 the District reported a liability of \$39,301,278 for its proportionate share of the net position liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. SCHDTF included the Southwest Open School and the Battle Rock Charter School in the Montezuma County (Cortez) School District's ("District") proportion. The District's proportion of the net pension liability was based on a percentage of the Montezuma County (Cortez) School District RE-1's ("District") contributions to the SCHDTF for the calendar year 2014 relative to the total contributions of participating employers to the SCHDTF. At December 31, 2014, the District's proportion was .3110686196 percent, which was decrease of .0044818756 percent from its proportion measured as of December 31, 2013. The District's contributions were 93.22% (.28997455519 percent) of the total contributions.

For the year ended June 30, 2015, the District recognized pension expense of \$1,200,150. As June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$ 2,935
Net difference between projected and actual earnings on pension plan investments	\$ 903,801	
Changes in proportion and differences between contributions recognized and proportionate share of contributions	(383,139)	
Contributions subsequent to the measurement date	1,069,346	
	<u>\$ 1,590,008</u>	<u>\$ 2,935</u>

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\$1,069,346 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, 2016. 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	
2016	\$ 82,386
2017	82,386
2018	125,912
2019	227,043
 Total	 <u><u>\$ 517,727</u></u>

Actuarial Assumptions – The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 - 10.10 percent
Long-term investment rate of return, net of pension plan investments expense, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07 and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

The SCHDTF’s long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for

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

As of the most recent analysis of the long-term expected rate of return, presented to the PERA governing board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	10 Year Expected <u>Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
 Total	 <u>100.00%</u>	

*In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projections of cash flows to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of

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the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1 % Decrease (6.50%)	Current Discount Rate (7.50%)	1 % Increase (8.50%)
Proportionate share of the net pension liability	\$ 38,908,266	\$ 39,301,278	\$ 39,694,291

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

12. Other Post-Employment Benefits

Health Care Trust Fund

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

Funding Policy – The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirement for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2013, 2014 and 2015, the District’s employer contributions to the HCTF were \$121,226, \$124,820, and \$122,103, respectively, equal to their required contribution for each year.

13. Defined Contribution Pension Plan

Voluntary Investment Program

Plan Description – Employees of the District that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24 Article 51 Part 14 of the

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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, 2015, program members contributed \$231,026 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 \$95,000, with a maximum aggregate benefit of \$3,401,381.

The plan received premiums of \$2,628,899 and paid claims of \$2,658,404 for the fiscal year. \$2,621,651 of the premiums charged were paid by the District as employee benefits. This amount is removed from both revenue and expense within the Self Insurance Fund and is shown as an expense in the fund in which the expenditures were paid.

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

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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. *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.

17. *Restatement of Net Position and Fund Balances*

The District previously reported the activity of the Food Service Fund in a proprietary fund. Beginning in fiscal year 2015, such activity has been more appropriately reported in a special revenue fund. Accordingly, the assets and liabilities reported in the proprietary fund are reclassified as assets and liabilities of the governmental activities. The newly established special revenue fund reports a restated beginning fund balance of \$279,753, which is equal to the net current assets and current liabilities previously reported in the proprietary fund.

The District also previously reported the Southwest Open School and Battlerock Charter School as blended component units. Beginning in fiscal year 2015, based on criteria set forth in GASB Statement 61, The Financial Reporting Entity: Omnibus and amendment of GASB 14 and 34, both of the component units have been included in the District's basic financial statements as discretely presented component units. The Southwest Open School and Battlerock Charter School fund balance in the included in the General Fund was \$753,878 and \$28,433. The Southwest Open School and Battle Rock Charter School fund balance in the Capital Reserve Fund was \$218,222 and \$3,979. Accordingly, the General Fund beginning fund balance was restated from \$3,548,072 to \$2,765,761, and the Capital Projects beginning fund balance was restated from \$1,321,767 to \$1,099,566.

Also, for the fiscal year ended June 30, 2015, the District adopted the standards of Governmental Accounting Standards Board Statement 68, Accounting and financial Reporting for Pensions. As a result, net position of governmental activities at June 30, 2014 was restated by \$36,514,055 to reflect the cumulative effect of adopting the standards.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Required Supplementary Information

June 30, 2015

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

Such information includes:

Budgetary Comparison Schedules

 General Fund

 Food Service Fund

 Governmental Designated-Purpose Grants Fund

Schedule of the District's Pension Contributions

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

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

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Local sources				
Taxes	\$ 11,728,858	\$ 12,217,989	\$ 12,727,938	\$ 509,949
Other	781,736	712,534	540,404	(172,130)
Intermediate sources	287,000	287,000	318,976	31,976
State sources				
State Equalization	6,277,493	6,255,978	6,249,685	(6,293)
Per pupil charter school allocation	(1,912,963)	(1,773,792)	(1,773,572)	220
Grants	518,000	639,721	669,488	29,767
Federal sources				
Grants	467,000	467,000	611,544	144,544
Total Revenues	18,147,124	18,806,430	19,344,463	538,033
Expenditures				
Instructional Program				
Salaries	7,016,153	6,877,506	6,842,392	35,114
Employee benefits	2,815,295	2,792,543	2,606,475	186,068
Purchased services				
Property			103	(103)
Other	1,031,967	864,104	981,254	(117,150)
Supplies	430,669	454,153	230,886	223,267
Property	118,040	117,963	74,894	43,069
Other	68,480	68,480	62,376	6,104
Total Instructional Program	11,480,604	11,174,749	10,798,380	376,369
Support Programs				
Students	806,291	888,261	821,421	66,840
Instructional staff	738,184	762,735	745,226	17,509
General administration	725,625	730,376	634,467	95,909
School administration	1,399,596	1,387,315	1,445,810	(58,495)
Business	371,550	375,550	349,938	25,612
Plant operation and maintenance	2,134,263	2,156,759	1,944,370	212,389
Student transportation	996,646	993,825	915,017	78,808
Central support services	217,750	210,700	163,263	47,437
Other support services	123,725	41,825	18,878	22,947
Facilities acquisition			3,844	(3,844)
Total Support Programs	7,513,630	7,547,346	7,042,234	505,112
Total Expenditures	18,994,234	18,722,095	17,840,614	881,481
Excess revenues over (under) expenditures	(847,110)	84,335	1,503,849	1,419,514
Other Financing Sources (Uses)				
Transfers Out	(70,000)	(848,650)	(350,000)	498,650
Total Other Financing Sources (Uses)	(70,000)	(848,650)	(350,000)	498,650
Net Change in Fund Balances	(917,110)	(764,315)	1,153,849	1,918,164
Fund Balances beginning of the year	917,110	764,315	2,765,761	2,001,446
Fund Balances end of the year	\$ -	\$ -	\$ 3,919,610	\$ 3,919,610

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, 2015

	Budgeted Amounts		(Non GAAP Basis) Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Local sources				
Food sales	\$ 264,445	\$ 264,445	\$ 228,673	\$ (35,772)
Other	200	200	1,944	1,744
State sources				
Grants	14,918	14,918	18,559	3,641
Federal sources				
Grants	804,312	804,312	785,373	(18,939)
Total local sources	<u>1,083,875</u>	<u>1,083,875</u>	<u>1,034,549</u>	<u>(49,326)</u>
Expenditures				
Support programs				
Food service operations				
Salaries	342,967	342,967	339,718	3,249
Employee benefits	213,308	213,308	213,026	282
Purchased services				
Property	8,000	8,000	15,298	(7,298)
Other	1,300	1,300	515	785
Food and supplies	491,300	491,300	461,023	30,277
Property	9,000	9,000	150	8,850
Other	18,000	18,000	15,862	2,138
Total Expenditures	<u>1,083,875</u>	<u>1,083,875</u>	<u>1,045,592</u>	<u>38,283</u>
Excess revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(11,043)</u>	<u>(11,043)</u>
Net change in fund balance	-	-	(11,043)	(11,043)
Fund balance beginning of the year			279,753	279,753
Fund balance end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,710</u>	<u>\$ 268,710</u>

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

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Local sources	\$ 294,662	\$ 399,100	\$ 358,437	\$ (40,663)
State sources				
Grants	847,908	1,094,641	486,286	(608,355)
Federal sources				
Grants	2,454,378	2,477,661	2,143,900	(333,761)
Total Revenues	<u>3,596,948</u>	<u>3,971,402</u>	<u>2,988,623</u>	<u>(982,779)</u>
Expenditures				
Instructional Program				
Salaries	777,385	799,826	688,635	111,191
Employee benefits	289,171	274,929	236,309	38,620
Purchased services				
Professional and technical	84,820	83,040	56,384	26,656
Other	44,495	79,514	82,183	(2,669)
Supplies	175,468	277,701	193,860	83,841
Property	104,410	105,608	103,342	2,266
Other	10,300	5,029	4,643	386
Total Instructional Program	<u>1,486,049</u>	<u>1,625,647</u>	<u>1,365,356</u>	<u>260,291</u>
Support Programs				
Students	757,962	778,870	391,112	387,758
Instructional staff	932,254	1,048,128	809,251	238,877
General administration	161,082	111,176	122,496	(11,320)
School administration	154,962	258,910	141,007	117,903
Business	78,247	57,264	55,728	1,536
Student transportation	15,227	27,834	3,242	24,592
Food service operations		106,753	98,571	8,182
Facilities acquisition	44,407			-
Total Support Programs	<u>2,144,141</u>	<u>2,388,935</u>	<u>1,621,407</u>	<u>767,528</u>
Total Expenditures	<u>3,630,190</u>	<u>4,014,582</u>	<u>2,986,763</u>	<u>1,027,819</u>
Excess revenues over (under) expenditures	<u>(33,242)</u>	<u>(43,180)</u>	<u>1,860</u>	<u>45,040</u>
Net Change in Fund Balances	(33,242)	(43,180)	1,860	45,040
Fund Balances beginning of the year	33,242	43,180	9,427	(33,753)
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,287</u>	<u>\$ 11,287</u>

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

June 30, 2015
Last 10 Years*

	<u>2015</u>
Statutorily required contributions	\$ 2,052,694
Contributions in relation to the statutory required contribution	1,905,501
Contribution deficiency (excess)	<u>\$ 147,193</u>
School's covered employee payroll	\$ 12,157,244
Contributions as a percentage of covered employee payroll	16.88%

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

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

June 30, 2015
 Last 10 Years*

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

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

The Montezuma County (Cortez) School District's contributions were 93.22% of the total contributions.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

Other Supplementary Information

June 30, 2015

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

These statements and schedules include:

Budgetary Comparison Schedules

Debt Service Fund

Bond Redemption Fund

Capital Projects Fund

High School Building Fund

Capital Projects Fund

Proprietary Fund

Self Insurance Fund

Fiduciary Fund

Agency Fund

Pupil Activity Fund

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

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

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Local sources				
Current property tax	\$ 1,463,220	\$ 1,463,220	\$ 1,515,431	\$ 52,211
Earnings on investments			941	941
Other Tax			2,380	2,380
Total local sources	<u>1,463,220</u>	<u>1,463,220</u>	<u>1,518,752</u>	<u>55,532</u>
Total revenues	<u>1,463,220</u>	<u>1,463,220</u>	<u>1,518,752</u>	<u>55,532</u>
Expenditures				
Debt Service				
Interest	639,614	639,614	596,614	43,000
Principal	823,606	823,606	816,322	7,284
Total expenditures	<u>1,463,220</u>	<u>1,463,220</u>	<u>1,412,936</u>	<u>50,284</u>
Excess revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>105,816</u>	<u>105,816</u>
Net change in fund balance	-	-	105,816	105,816
Fund balance beginning of the year			1,210,719	1,210,719
Fund balance end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,316,535</u>	<u>\$ 1,316,535</u>

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

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Earnings on investments		\$ 1,800	\$ 1,883	\$ 83
Total local sources		<u>1,800</u>	<u>1,883</u>	<u>83</u>
State sources				
BEST grant	\$ 16,069,249	16,069,249	14,775,445	(1,293,804)
Total state sources	<u>16,069,249</u>	<u>16,069,249</u>	<u>14,775,445</u>	<u>(1,293,804)</u>
Total Revenues	<u>16,069,249</u>	<u>16,071,049</u>	<u>14,777,328</u>	<u>(1,293,721)</u>
Expenditures				
Support Programs				
Facilities acquisition	37,325,001	37,563,797	25,036,513	12,527,284
Total Support Programs	<u>37,325,001</u>	<u>37,563,797</u>	<u>25,036,513</u>	<u>12,527,284</u>
Total Expenditures	<u>37,325,001</u>	<u>37,563,797</u>	<u>25,036,513</u>	<u>12,527,284</u>
Other Financing Sources (uses)				
Transfers in		250,000		(250,000)
Total Other Financing Sources (uses)		<u>250,000</u>		<u>(250,000)</u>
Excess revenues over (under) expenditures	<u>(21,255,752)</u>	<u>(21,242,748)</u>	<u>(10,259,185)</u>	<u>10,983,563</u>
Net Changes in Fund Balances	(21,255,752)	(21,242,748)	(10,259,185)	10,983,563
Fund Balances beginning of the year	21,255,752	21,242,748	21,242,748	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,983,563</u>	<u>\$ 10,983,563</u>

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

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Earnings on investments	\$ 300	\$ 300	\$ 859	\$ 559
Total local sources	<u>300</u>	<u>300</u>	<u>859</u>	<u>559</u>
State sources				
Capital construction grant		38,410	39,733	1,323
Total state sources		<u>38,410</u>	<u>39,733</u>	<u>1,323</u>
Federal sources				
Public Lands	10,000	10,000	507	(9,493)
Total federal sources	<u>10,000</u>	<u>10,000</u>	<u>507</u>	<u>(9,493)</u>
Total Revenues	<u>10,300</u>	<u>48,710</u>	<u>41,099</u>	<u>(7,611)</u>
Support Programs				
Business	200		17	(17)
Operation and maintenance of plant			30,556	(30,556)
Student transportation	20,000		58,201	(58,201)
Facilities acquisition	82,523	38,410	76,921	(38,511)
Other	645,367	859,866		859,866
Total Support Programs	<u>748,090</u>	<u>898,276</u>	<u>165,695</u>	<u>732,581</u>
Total Expenditures	<u>748,090</u>	<u>898,276</u>	<u>165,695</u>	<u>732,581</u>
Excess revenues over (under) expenditures	<u>(737,790)</u>	<u>(849,566)</u>	<u>(124,596)</u>	<u>724,970</u>
Other Financing Sources (Uses)				
Transfers in (out)	(250,000)	(250,000)		250,000
Total Other Financing Sources (Uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
Net Changes in Fund Balances	(987,790)	(1,099,566)	(124,596)	974,970
Fund Balances beginning of the year	987,790	1,099,566	1,099,566	-
Fund Balances end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 974,970</u>	<u>\$ 974,970</u>

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

For the Year Ended June 30, 2015

	Budgeted Amounts		(Non GAAP Basis) Actual	Variance Favorable
	Original	Final	Amounts	(Unfavorable)
Operating Revenues				
Premium revenue	\$ 2,665,000	\$ 2,600,000	\$ 2,628,899	\$ 28,899
Total local sources	<u>2,665,000</u>	<u>2,600,000</u>	<u>2,628,899</u>	<u>28,899</u>
Operating Expenses				
Central service				
Administration fees			58,829	(58,829)
Medial and Prescription Claims	2,915,050	3,194,494	2,658,404	536,090
Total operating expenses	<u>2,915,050</u>	<u>3,194,494</u>	<u>2,717,233</u>	<u>477,261</u>
Other financing sources (uses)				
Transfers in (out)	250,000	350,000	350,000	-
Total other financing sources (uses)	<u>250,000</u>	<u>350,000</u>	<u>350,000</u>	<u>-</u>
Operating income (loss)	(50)	(244,494)	261,666	506,160
Non-Operating Revenue				
Local sources				
Earnings on investments	50	50	27	(23)
Change in net position non GAAP basis	<u>-</u>	<u>(244,444)</u>	<u>261,693</u>	<u>506,137</u>
Net position beginning of the year		244,444	244,444	-
Net position end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 506,137</u>	<u>\$ 506,137</u>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1
 Schedule of Revenues, Expenditures, and Changes in Due to Agency Recipients - Budget and Actual
 Fiduciary Fund
 Agency Fund

For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Other	\$ 580,000	\$ 580,000	\$ 688,305	\$ 108,305
Total local sources	<u>580,000</u>	<u>580,000</u>	<u>688,305</u>	<u>108,305</u>
Total Revenues	<u>580,000</u>	<u>580,000</u>	<u>688,305</u>	<u>108,305</u>
Expenditures				
Other objects	817,200	819,383	689,825	129,558
Total Expenditures	<u>817,200</u>	<u>819,383</u>	<u>689,825</u>	<u>129,558</u>
Total Expenditures	<u>817,200</u>	<u>819,383</u>	<u>689,825</u>	<u>129,558</u>
Net Change in Fund Balances	(237,200)	(239,383)	(1,520)	237,863
Due to agency recipients beginning of the year	237,200	239,383	239,383	-
Due to agency recipients end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,863</u>	<u>\$ 237,863</u>

INFORMATION REQUIRED BY OVERSIGHT AUTHORITIES

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Certified Public Accountants

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Chris L. Majors, CPA, MT

Lori Hasty Haley, CPA

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montezuma County (Cortez) School District RE-1 as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Montezuma County (Cortez) School District RE-1's basic financial statements and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Majors and Haley PC

Majors and Haley, P.C.
November 9, 2015

Majors and Haley, P.C.
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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 *U.S. Office of Management and Budget (OMB) Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Majors and Haley PC

Majors and Haley, P.C.
November 9, 2015

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2015**

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	\$ 131,806
National School Lunch Program	10.555	4555	575,856
Special Milk Program for Children	10.556	4556	2,890
 Total			<hr/> 710,552
 Pass through the Colorado Department of Human Services			
Food Commodities	10.555	4555	<hr/> 74,821
 Total			<hr/> 785,373
 U.S. Department of Education			
Direct program			
Impact Aid - P.L. 81-874	84.041	4041	611,544
Title VII - Indian Education	84.060	4060	140,517
 Total			<hr/> 752,061
 Passed through the Colorado Department of Education			
Title I Grants to Local Educational Agencies	84.010	4010	783,559
Title I Grants to Local Educational Agencies	84.010	5010	159,991
Charter Schools	84.282	5282	352,517
Twenty-First Century Community Learning Centers	84.287	5287	337,067
Rural Education Title VI Part B	84.358	7358	44,455
High School Graduation Initiative	84.360	5360	70,435
Improving Teacher Quality State Grants Title II Part A	84.367	4367	164,551
 Total			<hr/> 1,912,575
 Passed through the Colorado Community College System			
Career and Technical Education Perkins IV	84.048	4048	<hr/> 47,228
 Total			<hr/> 2,711,864
 Total Expenditures of Federal Awards			<hr/> \$ 3,497,237 <hr/>

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

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, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the 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, 2015.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2015

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the (general purpose) financial statements of Montezuma Cortez School District RE-1.
2. No instances of noncompliance material to the (general purpose) financial statements of Montezuma Cortez School District RE-1 were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for Montezuma Cortez School District RE-1 expressed an unqualified opinion on all major programs.
4. No instances of audit findings relating to major programs were disclosed during the audit.
5. The programs tested as major programs included:

Child Nutrition Cluster	CFDA Numbers 10.553 10.555 and 10.556
Charter School Grant	CFDA Number 84.282
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. Montezuma Cortez School District RE-1 was determined to be a low-risk auditee.

MONTEZUMA COUNTY (CORTEZ) SCHOOL DISTRICT RE-1

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2015

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, 2015

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

Majors and Haley, P.C.
Certified Public Accountants

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Chris L. Majors, CPA, MT

Lori Hasty Haley, CPA

INDEPENDENT AUDITORS' REPORT
ON COLORADO DEPARTMENT OF EDUCATION AUDITORS' INTEGRITY REPORT

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated 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, 2015, and have issued our report thereon dated November 9, 2015, which expressed an unmodified opinion on those financial statements, appears as listed in the table of contents. These financial statements are the responsibility of Montezuma County (Cortez) School District RE-1 management.

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 financial statements. The accompanying Colorado Department of Education Auditors' Integrity Report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Majors and Haley PC

Majors and Haley, P.C.

Cortez, Colorado
November 9, 2015



Colorado Department of Education
Auditors Integrity Report
 District: 2035 - MONTEZUMA-CORTEZ RE-1
 Fiscal Year 2014-15
 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	2,746,866	18,174,657	17,146,548	3,774,975
18 Risk Mgmt Sub-Fund of General Fund	18,826	235,580	186,711	67,695
19 Colorado Preschool Program Fund	68	609,800	532,929	76,940
Sub- Total	2,765,761	19,020,037	17,866,187	3,919,610
11 Charter School Fund	786,335	1,694,174	1,712,197	768,312
20,26-29 Special Revenue Fund	0	0	0	0
21 Food Service Spec Revenue Fund	279,753	1,034,550	1,045,592	268,710
22 Govt Designated-Purpose Grants Fund	9,427	3,641,350	3,639,488	11,289
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	1,210,719	1,518,753	1,412,936	1,316,535
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	21,242,748	14,777,328	25,036,513	10,983,563
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,321,767	309,574	199,618	1,431,722
Totals	27,616,508	41,995,764	50,912,531	18,699,742
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	244,444	357,275	92,582	509,137
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	244,444	357,275	92,582	509,137
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	239,383	688,304	689,825	237,863
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	239,383	688,304	689,825	237,863

FINAL

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