

cPa DIXON, WALLER & CO., INC.

EAST OTERO

SCHOOL DISTRICT NUMBER R-1

LA JUNTA, COLORADO

FINANCIAL STATEMENTS

JUNE 30, 2018

DIXON, WALLER & CO., INC.

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FINANCIAL STATEMENTS

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EAST OTERO SCHOOL DISTRICT NUMBER R-1
ROSTER OF SCHOOL OFFICIALS
June 30, 2018

BOARD OF EDUCATION

Jeff Paolucci	President
Dee Leyba	Vice-President
Kristin Bickel	Secretary/Treasurer
Angela Ayala	Member
Kidron Backes	Member

SCHOOL OFFICIALS

Rick Lovato	Superintendent
Merinda Reisch	Business Manager

FINANCIAL SECTION

164 E. MAIN
TRINIDAD, COLORADO 81082
(719) 846-9241 FAX (719) 846-3352

INDEPENDENT AUDITOR'S REPORT

**Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Otero School District Number R-1, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Otero School District Number R-1, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension and post employment benefits trend data on pages i through xiii and 49 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Otero School District Number R-1's basic financial statements. The combining and individual fund financial statements, other schedules, and state required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining and individual fund financial statements, other schedules, state required schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, other schedules, state required schedules 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 30, 2018, on our consideration of East Otero School District Number R-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Otero School District Number R-1's internal control over financial reporting and compliance.

Dixon, Waller & Co., PC.

November 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



EAST OTERO SCHOOL DISTRICT R-1
301 RATON AVE.
LA JUNTA, CO 81050
(719) 384-6900 FAX (719) 384-6910

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of East Otero School District R-1, we offer readers of the District's annual financial statements this narrative overview and analysis of the financial activities during the fiscal year ended on June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- With the new regulations of GASB 68 requiring the net pension obligation to be presented on the financial statements, the financial statements will not be comparable. Because of GASB 68, the liabilities of the District exceeded its assets at the close of the fiscal year by \$17,068,351. Unrestricted net position of the district is a negative \$26,887,164.
- The District's financial status increased over the course of the 2018 fiscal year. Total net position increased 13.9 percent.
- General revenues, primarily property taxes and state equalization payments, account for approximately \$12.1 million or 74 percent of all revenues. Program specific revenues for services, grants, and contributions accounted for \$4.25 million or 26 percent of \$16.4 million in total revenues.
- The District had \$22.1 million in expenses related to governmental activities; only \$4.0 million of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$12.0 million were not adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

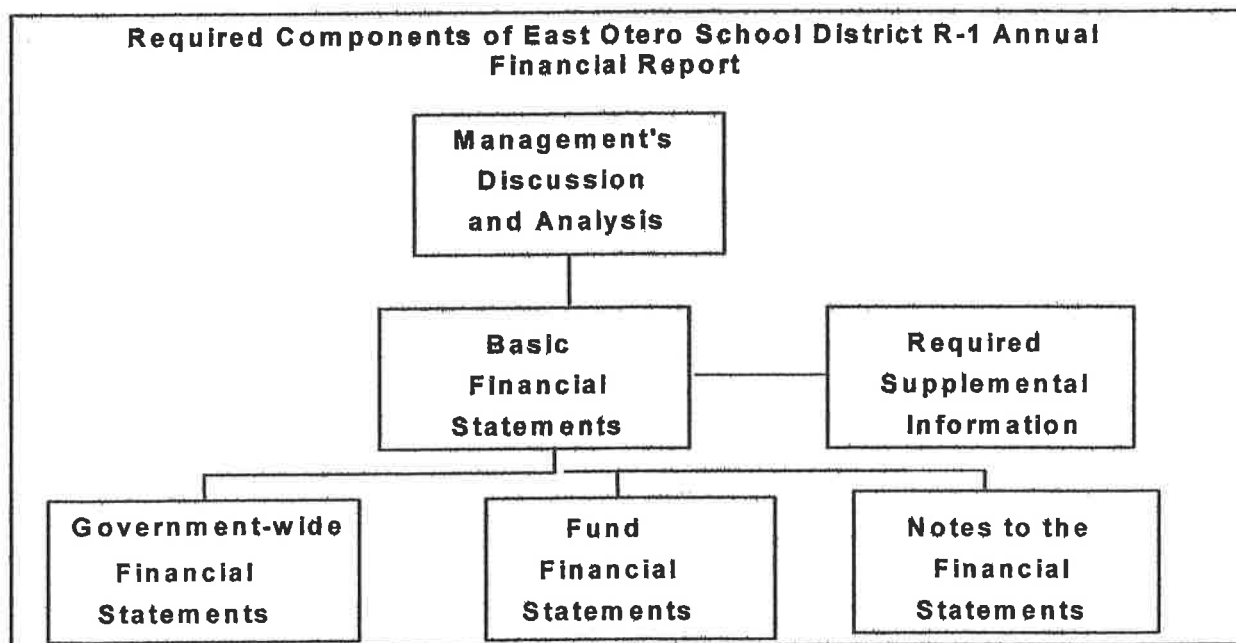
This discussion and analysis serves as an introduction to East Otero School District R-1's basic financial statements. The basic financial statements consist of three parts ~ management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary/Enterprise fund statements offer short and long term financial information about the activities that the district operates like businesses, such as food service.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The Flow Chart (Figure A-1) below shows how the required parts of this annual report are arranged and how they relate to one another.



A-1

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of East Otero School District R-1 Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District government (except fiduciary funds and the districts component units)	The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the District operates similar to private businesses, ie. the food service operation.	Instances in which the District is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Fund Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

A-2

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. They consist of two statements:

The statement of net position presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position of the District during the fiscal year 2017-2018. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods. Earned but unused vacation leave and uncollected taxes are examples of these types of items.

The government-wide financial statements of the District are reported as follows:

- **Governmental Activities** - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.), food service and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All District funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you 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, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

East Otero School District R-1 maintains seven individual governmental funds. Information is presented separately in the governmental fund - balance sheet and in the governmental fund - statement of revenues, expenditures and changes in fund balances for the (1) General Fund (2) Grant Special Revenue Fund (3) Bond Redemption Fund (4) Building Fund (5) Other Governmental Funds (6) Capital Projects/Capital Reserve Fund (7) Special Revenue Fund (a) Student Activity and (b) Food Service. Also included in the supplementary information section is budget-to-actual information for the Debt Service Fund as required by law.

Proprietary Funds – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. As of July 1, 2014, the district does not have any proprietary funds.

Fiduciary Funds - Funds used to account for resources held for the benefit of parties outside the District, such as scholarship funds and Agency funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The district maintains only one fiduciary fund, which is categorized as an agency fund. This is the Agency fund and there will be no statement of changes in the net position as it is not required.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-48 of this report.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. Supplementary information includes combining statements mentioned earlier in connection with non-major governmental funds as well as budget-to-actual information for all funds as dictated by state law. A budgetary comparison schedule has been

provided on pages 49-63 for the General, Capital Projects, Bond Redemption, Special Revenue and Agency Funds to demonstrate compliance.

Reinstatement of Net Position

The District was required to implement GASB 75 resulting in a net other post-employment benefit (OPEB) liability of \$960,178. Under GASB 75 the District's proportionate share of the OPEB liability of the Colorado State Retirement System Health Care Trust Fund administered by the Public Employees Retirement Association, is recorded as a liability of the District. At implementation beginning equity is restated and deferred inflows, outflows and the net OPEB liability are reported. Beginning net position of governmental activities decreased as a result of this change.

Upon implementation of GASB 75, the beginning net position of governmental activities decreased (\$904,657) to (\$11,297,289) from (\$10,392,632) at the end of the previous fiscal year. Fiscal Year 2017 financial information has not been restated because some of the comparable information is not available.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

This section will explain the differences between the current and prior year's assets, liabilities, and changes in net position.

Table A-3 below provides a summary of the District's net assets as of June 30, 2018 & 2017.

East Otero School District R-1 Condensed Statement of Net Position as of June 30, 2018 & 2017

	Governmental Activities		Total	
	2016-2017	2017-2018	2016-2017	2017-2018
Current & other assets	\$23,269,196	\$24,864,273	\$23,269,196	\$24,864,273
Capital assets	\$ 9,723,226	\$ 9,828,263	\$ 9,723,226	\$ 9,828,263
Total assets	\$32,992,422	\$34,692,536	\$32,992,422	\$34,692,536
Current & other liabilities	\$ 1,930,567	\$ 4,413,674	\$ 1,930,567	\$ 4,413,674
Long-term debt outstanding	\$41,454,487	\$47,347,211	\$41,454,487	\$47,347,211
Total liabilities	\$43,385,054	\$51,760,885	\$43,385,054	\$51,760,885
Net position				
Invested in capital assets	\$ 6,311,095	\$ 5,188,263	\$ 6,311,095	\$ 5,188,263
Restricted	\$ 3,125,635	\$ 4,630,550	\$ 3,125,635	\$ 4,630,550
Unrestricted	\$(19,829,362)	\$(26,887,164)	\$(19,829,362)	\$(26,887,164)
Total net position	\$(10,392,632)	\$(17,068,351)	\$(10,392,632)	\$(17,068,351)

The statement of net position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the district, consisting of compensated absences payable, early retirement benefits payable and capital outlay certificates payable have been reported in this manner on the statement of net position. The difference between the district's assets and liabilities is its net position.

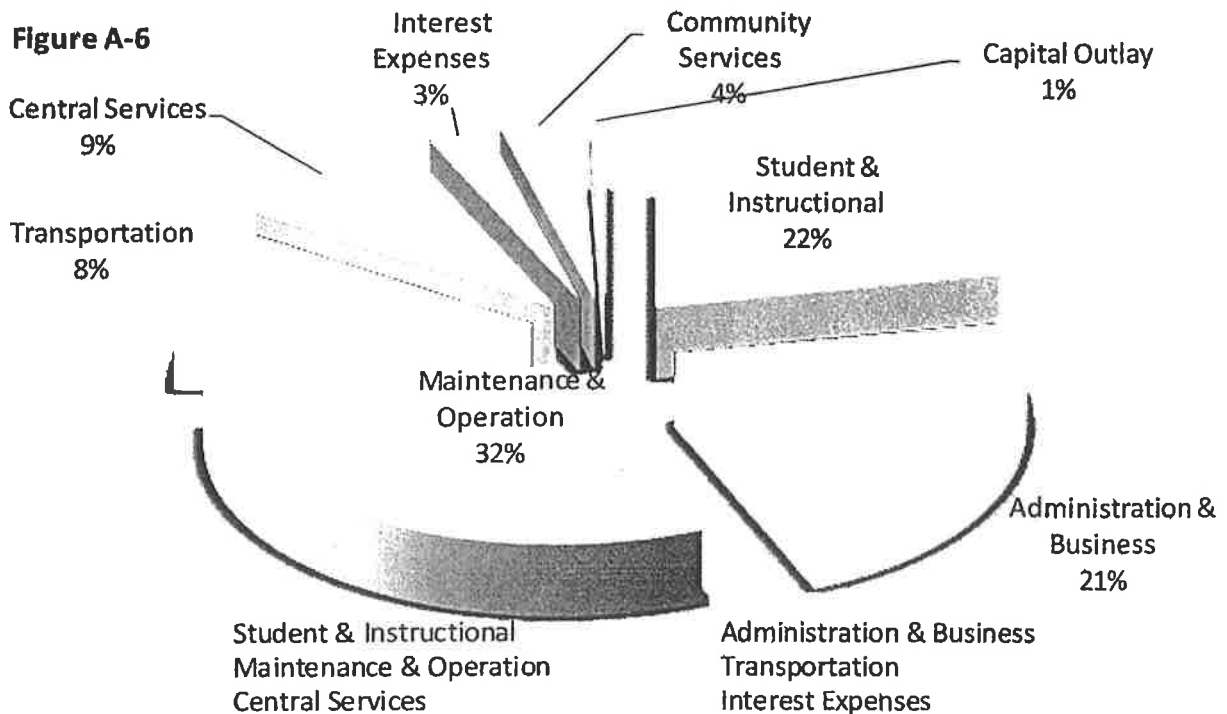
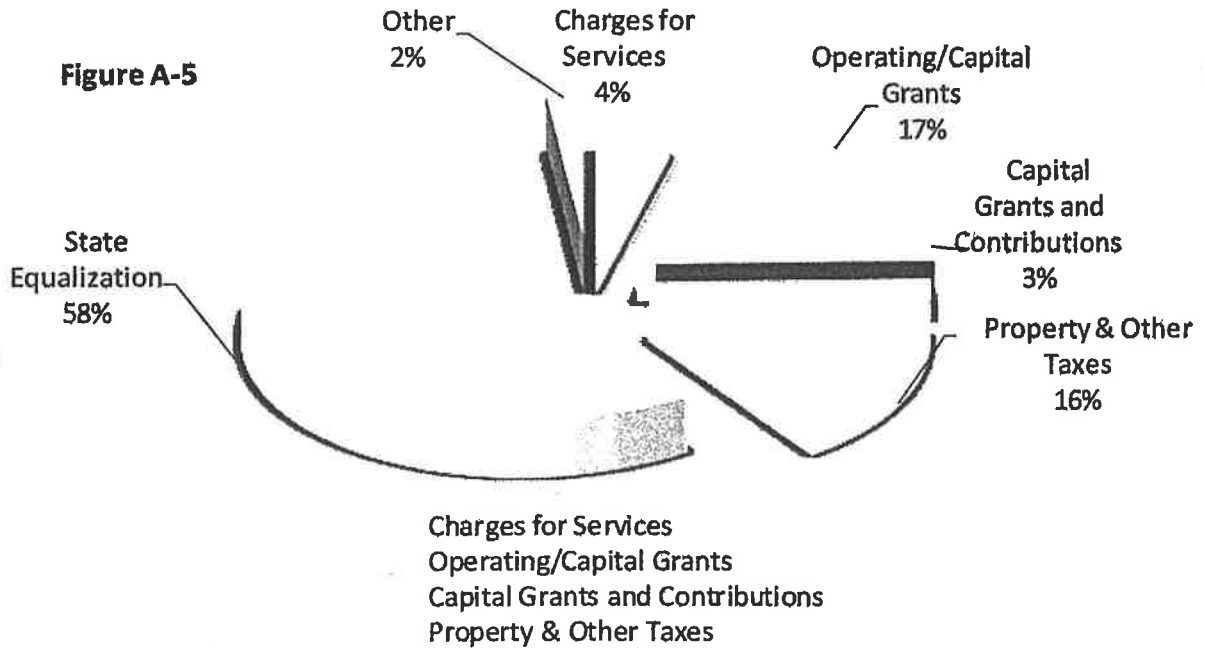
Changes in Net Position

The change in revenue and expenditures for governmental activities is overall insignificant.

East Otero School District R-1				
Condensed Statement of Changes in Net Position as of June 30, 2018 & 2017				
	Governmental	Activities	Total	
	2016-2017	2017-2018	2016-2017	2017-2018
Revenues				
Charges for Services	\$798,495	\$668,464	\$798,495	\$668,464
Operating/Capital Grants	2,297,924	2,797,613	2,297,924	2,797,613
Capital Grants and Contributions		541,527		541,527
General Revenues				
Property & Other Taxes	2,773,575	2,563,619	2,773,575	2,563,619
State Equalization	8,614,261	9,451,423	8,614,261	9,451,423
Other	92,858	333,253	92,858	333,253
Total Revenues	\$14,577,113	\$16,355,899	\$14,577,113	\$16,355,899
Expenses				
Instruction	7,785,589	8,447,996	7,785,589	8,447,996
Student & Instructional	1,005,283	1,193,285	1,005,283	1,193,285
Administration & Business	1,184,316	1,164,117	1,184,316	1,164,117
Maintenance & Operation	1,607,176	1,756,817	1,607,176	1,756,817
Transportation	388,608	456,313	388,608	456,313
Central Services	475,225	482,344	475,225	482,344
Interest Expenses	175,170	142,874	175,170	142,874
Community Services	185,747	194,236	185,747	194,236
Pension Amortization	5,740,400	7,158,188	5,740,400	7,158,188
Bond Issue Costs	0	90,144	0	90,144
OPEB Costs	0	24,872	0	24,872
Capital Outlay	84,198	35,321	84,198	35,321
Food Services	1,084,858	980,454	1,084,858	980,454
Total Expenses	19,716,570	22,126,961	19,716,570	22,126,961
Inc (Dec) Net Position				
Beg. Net Position - Restated				
Prior Year Adjustment	0	0	0	0
Ending Net Position				

The District's revenues totaled \$16,355,899. (See Table A-4) Approximately 16 percent of the District's revenue came from property and other taxes, with 58 percent coming from state funding. (See Figure A-5)

The total cost of all programs and services was \$22,126,961. The District's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A6)



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994. Under this act, the District received \$8,009 per funded student. In fiscal year 2017-2018, the funded pupil count was 1429.3. Funding for the School Finance Act comes from property taxes, specific ownership taxes and state equalization. The District received approximately 60 percent of its funding from state equalization and 16 percent came from property taxes and specific ownership tax.

The statement of activities provides the cost of program services and the related charges for services and grants offsetting those costs. A-7 reflects each program's net cost (total cost less fees generated by the programs and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these programs.

Table A-7

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,447,996	\$6,800,763
Student Support	793,202	323,473
Instruction Staff	400,083	79,976
Administration & Business	1,164,117	1,164,117
Maintenance & Operation	1,756,817	1,749,815
Transportation	456,313	408,469
Central Support	482,344	462,963
Community Services	194,236	194,236
Capital Outlay	35,321	(506,206)
Int Exp/Pension Amort	7,416,078	7,416,078
Food Services	980,454	25,673
Total	<u>\$22,126,961</u>	<u>\$18,119,357</u>

The cost of all governmental activities this year was \$22.1 million.

Some of the costs were financed by users of the Districts programs. Revenues in this category include items such as building rental income, concurrent enrollment tuition and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

General Fund

The General Fund is the major operating fund of the District, providing the majority of the resources for the educational and support programs. The School Board approves a budget in June based on enrollment projections for the following school year. In October and in January, the School Board can approve a revised issuance of the budget. The primary reason for revision is an updated ending fund balance figure and updated financial information.

Actual revenues for the General fund totaled \$12,121,881. The actual expenditures of \$11,085,894 were below budget primarily due to \$3.0 million budgeted from fund balance for unplanned expenditures (contingency reserve). The \$5,556,658 fund balance as of June 30, 2018 includes \$403,900 reserved for TABOR. The budgetary basis differs from generally accepted accounting principles (GAAP) in the treatment of accrued salaries, benefits and related liabilities. According to state statutes, the accrued salaries and related benefits do not need to be "funded" and, therefore, are not subtracted from budgetary basis fund balance.

Bond Redemption Fund

In January 2018, the District issued \$1,440,000 in a General Obligation Refunding Loan with interest at 3.81% per annum to advance refund the outstanding 2008 General Obligation Bonds bearing interest ranging from 4.5% to 5.5%. Refunding proceeds plus \$1,900,000 from the Bond Redemption Fund less loan issue costs of \$82,144 was deposited with an escrow agent to provide debt service payments of \$3,145,000 in principal and \$1,088,000 in interest on the 2008 Series Bond. As a result, the 2008 bonds are considered to be defeased and the liability for the issue has been removed from the District financial statements. This refunding will reduce total debt service payments by \$638,870 over the next 10 years.

Grant Fund – Special Revenue

The District currently has twenty different grants that are maintained in the special revenue fund. The proceeds of specific revenue sources are legally restricted to expenditures for specified purposes. The grants are set up to account for state funding sources, local funding sources and federal funding sources.

The District reported \$1,324,373 in federal revenue sources, and state revenues of \$426,518.

The majority of the state grants have expenditures that exceed the revenue received from the state so transfers of \$1,169,914 were made from the General Fund to provide funding equivalent to the expenditures.

Special Revenue Fund expenditures are shown below in Table A-8 as dollars and the related percent based on program.

Table A-8

East Otero School District R-1
Expenditures of Grant Special Revenue Fund

	Actual Expenditures	Percent of Total Expenditures
Instruction	\$2,111,588	72.3%
Student Support	469,729	16.1%
Instructional Support	320,107	11.0%
Business Support	19,381	0.7%
Other Support Services	-	1.0%
Total	<u>\$2,920,805</u>	<u>100.0%</u>

Capital Projects/Capital Reserve Fund

The Capital Reserve Fund was established by state statutes with the primary source of funding being a per pupil allocation from the school finance act total program funding. In 2009-2010 the requirement to allocate funds was no longer required. Funds that are remaining in the Capital Reserve Fund must remain in the fund until expended on capital items. The District received Best Grant funds during the year to substantially fund two Best Grant projects. The projects require a 10% funding match by the District.

Other Governmental Funds

This consists of the Student Activities Fund, the Capital Projects Building Fund and the Food Service Fund. The Student Activities Fund has an ending fund balance of \$185,229, the Capital Projects Building Fund has an ending fund balance of \$229,174 and the Food Service Fund has an ending fund balance of \$23,576.

BUDGETARY HIGHLIGHTS

Fiscal year 2017-2018 budgets adopted by the Board of Education for the District as a whole totaled \$22.5 million. The following budget appropriations exclude appropriated reserves: General Fund appropriations of \$14.1 million, Bond Redemption Fund appropriations of \$3.2 million, Building Fund appropriations of \$0.4 million, and Special Revenue Funds appropriations for Capital Reserve-Projects of \$0.7 million, Grants of \$2.7 million and Food Service of \$1.3 million. Appropriations for the Student Activities Fiduciary Fund totaled \$0.1 million. There were no significant budget changes for the year. Expenditures exceeded budget in the Grants Special Revenue and Building Funds

CAPITAL ASSET ADMINISTRATION

By the end of 2018, the District had invested \$28.5 million in a broad range of capital assets, including, land, buildings, various machinery, vehicles, and equipment. This amount represents a net increase (including additions and deductions) of \$795,479. Items that have been on the Capital Assets listing, that the District no longer has, were written off this year.

East Otero School District R-1 CAPITAL ASSETS

Land & Land Improvements	\$ 931,739
Buildings & Site Improvements	24,805,763
Vehicles & Equipment	3,819,395
Total Funds Capital Assets	<u>\$ 29,556,897</u>

LONG-TERM DEBT

In January 2018, the District issued \$1,440,000 in a General Obligation Refunding Loan with interest at 3.81% per annum to advance refund the outstanding 2008 General Obligation Bonds bearing interest ranging from 4.5% to 5.5%. Refunding proceeds plus \$1,900,000 from the Bond Redemption Fund less loan issue costs of \$82,144 was deposited with an escrow agent to provide debt service payments of \$3,145,000 in principal and \$1,088,000 in interest on the 2008 Series Bond. As a result, the 2008 bonds are considered to be defeased and the liability for the issue has been removed from the District financial statements. This refunding will reduce total debt service payments by \$638,870 over the next 10 years.

The District is liable for the discretionary and vacation accrued compensated absences as per policy. The liability for June 30, 2018 is \$19,930.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

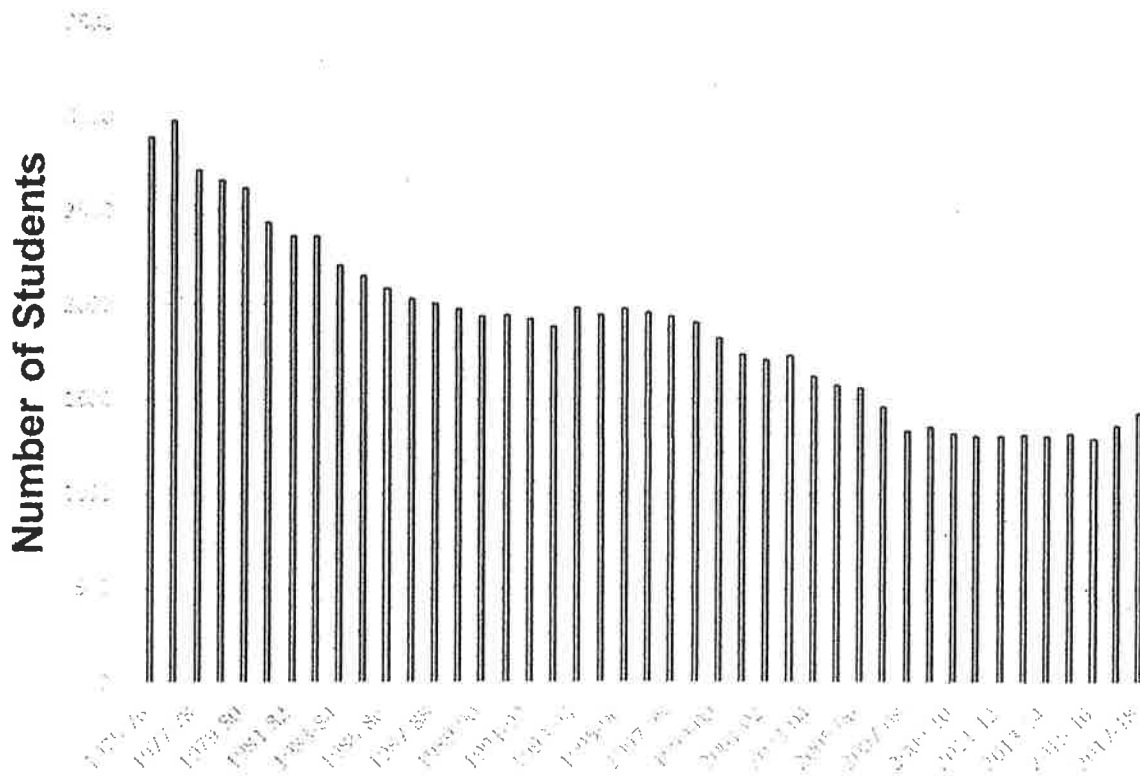
At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future.

Information from the 2017-2018 student enrollment "October count" shows that East Otero School District R-1 has approximately 70.5 more students than the prior year. The district's enrollment for the last six years is shown in the table at the top of the next page.

	Actual 12/13FY	Actual 13/14FY	Actual 14/15FY	Actual 15/16FY	Actual 16/17FY	Actual 17/18FY
At Risk Grades 1-12	881.8	885.4	907.5	907.9	915.7	959.4
Total Oct. 1 Certified Pupil Count	1265	1254.5	1270	1240	1304.5	1374.5
Total Funded Pupil Count	1320	1314.7	1322.5	1311.5	1358.8	1429.3

An impact of economic slowing is the reduction in the District's general fund revenues. Educational expenditures represent a significant portion of the State of Colorado's total expenditures and the State uses the October Count for State Equalization payments, the District anticipates its revenues will continue to be adversely impacted due to the economic downturn in state revenues. For 2008-2009 the General Assembly rescinded \$53,358 for the District. For 2009-2010 the General Assembly rescinded \$237,510 in what was called a state budget stabilization factor. This year the stabilization factor was a total of \$1,325,381. Starting in 2008-2009 the mill levy was frozen at the 2007-2008 level for tax funding. The minimum budget have been removed. The General Assembly has frozen the funding of full day kindergarten at 58%. The District long range planning, with the hopeful leveling of the loss of pupils, includes decreased staff via attrition and other measures to effectively reallocate resources to positively impact student achievement while maintaining an adequate fund balance. For the 2010-2011 school year this included closing one of the four facilities and merging classes into a 3-6 school and a Jr/Sr high school. Over the last five years, enrollment has been stable.

East Otero School District Enrollment History



Since the school year of 2001-2002, Colorado issued annual report cards for every public school in the state. The scores are now listed on the Colorado Department of Education website. The School Accountability report rates each school based upon student performance on the newly state mandated Partnership for Assessment of Readiness for College and Careers (PARCC). PARCC was administered to all third through 11th grade students in English Language Arts. All students in third through eighth grade, Algebra 1, Geometry and Algebra II, were assessed in math. State mandated electronic testing for the 2014-2015 fiscal year was the Colorado Measures of Academic Success (CMAS) for science and social studies. During

the school year, this series of science and social studies testing was administered to fourth and seventh graders in social studies, fifth and eighth graders in science, and 12th graders in science. The District is aggressively and successfully pursuing increased academic performance for all students. Fiscal management via reallocation of resources based on student performance data is a key piece of the district reform movement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors 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 or need additional financial information, contact the Superintendent, East Otero School District R-1, 301 Raton Avenue, La Junta, CO 81050.

Respectfully,

Merinda Reisch, MSA
Business Manager

BASIC FINANCIAL STATEMENTS

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Investments	10,633,228	10,633,228
Property Taxes Receivable	102,282	102,282
Accounts Receivable	87,998	87,998
Accrued Revenue	518,946	518,946
Inventories	14,879	14,879
<u>Total Current Assets</u>	<u>11,357,333</u>	<u>11,357,333</u>
<u>Capital Assets:</u>		
Land	257,210	257,210
Depreciable Assets	29,299,687	29,299,687
Accumulated Depreciation	(19,728,634)	(19,728,634)
<u>Capital Assets Net of Depreciation</u>	<u>9,828,263</u>	<u>9,828,263</u>
<u>TOTAL ASSETS</u>	<u>21,185,596</u>	<u>21,185,596</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Pension	13,356,948	13,356,948
Other Post Employment Benefits	46,713	46,713
Bond Refunding	103,279	103,279
<u>Total Deferred Outflow of Resources</u>	<u>13,506,940</u>	<u>13,506,940</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	489,528	489,528
Accrued Salaries Payable	568,973	568,973
Accrued Interest	5,930	5,930
Unearned Grant Payments	166,247	166,247
General Obligation Loans - Current	320,000	320,000
<u>Total Current Liabilities</u>	<u>1,550,678</u>	<u>1,550,678</u>
<u>Noncurrent Liabilities:</u>		
General Obligation Loans	4,320,000	4,320,000
Net Pension Liability	42,047,103	42,047,103
Net Other Post Employment Benefits Liability	960,178	960,178
Compensated Absences	19,930	19,930
<u>Total Noncurrent Liabilities</u>	<u>47,347,211</u>	<u>47,347,211</u>
<u>TOTAL LIABILITIES</u>	<u>48,897,889</u>	<u>48,897,889</u>
<u>DEFERRED INFLOW OF RESOURCES</u>		
Pension	2,846,934	2,846,934
Other Post Employment Benefits	16,064	16,064
<u>Total Deferred Outflow of Resources</u>	<u>2,862,998</u>	<u>2,862,998</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	5,188,263	5,188,263
Restricted for:		
Capital Outlay	3,204,706	3,204,706
Debt Service	886,848	886,848
TABOR	403,900	403,900
Preschool	111,520	111,520
Food Services	23,576	23,576
Unrestricted	(26,887,164)	(26,887,164)
<u>TOTAL NET POSITION</u>	<u>(17,068,351)</u>	<u>(17,068,351)</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	Net (Expenses) Revenue and Changes in Net Position				
	Program Revenues		Primary Government		
	Charges for Services	Operating Grants & Contributions	Capital Grants and Contributions	Governmental Activities	Total
<u>Expenses</u>					
<u>Primary Government:</u>					
<u>Governmental Activities</u>					
Instruction	8,447,996	1,045,623	-	(6,800,763)	(6,800,763)
Student Support	793,202	469,729	-	(323,473)	(323,473)
Instructional Staff	400,083	320,107	-	(79,976)	(79,976)
General Administration	310,646	-	-	(310,646)	(310,646)
School Administration	730,851	-	-	(730,851)	(730,851)
Business Support	122,620	-	-	(122,620)	(122,620)
Operation & Maintenance	1,756,817	-	-	(1,749,815)	(1,749,815)
Student Transportation	456,313	47,844	-	(408,469)	(408,469)
Central Support	482,344	19,381	-	(462,963)	(462,963)
Food Services	980,454	894,929	-	(25,673)	(25,673)
Community Services	194,236	-	-	(194,236)	(194,236)
Capital Outlay	35,321	-	541,527	506,206	506,206
Interest Expense	142,874	-	-	(142,874)	(142,874)
Bond Issue Costs	90,144	-	-	(90,144)	(90,144)
Pension Costs	7,158,188	-	-	(7,158,188)	(7,158,188)
OPEB Costs	24,872	-	-	(24,872)	(24,872)
Total Governmental Activities	<u>22,126,961</u>	<u>2,797,613</u>	<u>541,527</u>	<u>(18,119,357)</u>	<u>(18,119,357)</u>
Total Primary Government	<u>22,126,961</u>	<u>2,797,613</u>	<u>541,527</u>	<u>(18,119,357)</u>	<u>(18,119,357)</u>
<u>General Revenues</u>					
Local Property Taxes				2,101,996	2,101,996
Specific Ownership Taxes				461,623	461,623
School Finance Act				9,451,423	9,451,423
Earnings on Investments				67,436	67,436
Other				265,817	265,817
Total General Revenues				<u>12,348,295</u>	<u>12,348,295</u>
Change in Net Position				<u>(5,771,062)</u>	<u>(5,771,062)</u>
Net Position, Beginning (as Restated)				<u>(11,297,289)</u>	<u>(11,297,289)</u>
Net Position, Ending				<u>(17,068,351)</u>	<u>(17,068,351)</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General</u>	<u>Grants Special Revenue Fund</u>
<u>ASSETS</u>		
Cash and Investments	6,055,997	2,281
Property Taxes Receivable	81,630	-
Accounts Receivable	82,998	-
Accrued Revenue	-	215,731
Accrued Interest Receivable	-	-
Inventories	-	-
Due From Other Funds	79,538	-
<u>Total Assets</u>	<u>6,300,163</u>	<u>218,012</u>
<u>LIABILITIES:</u>		
Accounts Payable	187,819	1,179
Accrued Salaries Payable	403,066	165,907
Due To Other Funds	-	-
Unearned Grant Payments	115,321	50,926
<u>Total Liabilities</u>	<u>706,206</u>	<u>218,012</u>
<u>DEFERRED INFLOW OF RESOURCES</u>		
Deferred Property Tax	37,299	-
<u>FUND BALANCES:</u>		
Nonspendable:		
Inventories	-	-
Restricted for:		
TABOR (Emergencies)	403,900	-
Capital Outlay	-	-
Preschool	111,520	-
Debt Service	-	-
Food Service	-	-
Committed for:		
Risk Management	-	-
Capital Outlay	-	-
Assigned for:		
Pupil Activities	-	-
Unassigned	5,041,238	-
<u>Total Fund Balances</u>	<u>5,556,658</u>	<u>-</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>	<u>6,300,163</u>	<u>218,012</u>

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

Bond Redemption Debt Service	Building	Other Governmental Funds	Total Governmental Funds
875,291	3,284,200	415,459	10,633,228
20,652	-	-	102,282
-	-	5,000	87,998
-	204,412	98,803	518,946
-	-	-	-
-	-	14,879	14,879
-	-	-	79,538
<u>895,943</u>	<u>3,488,612</u>	<u>534,141</u>	<u>11,436,871</u>
-	283,906	16,624	489,528
-	-	-	568,973
-	-	79,538	79,538
-	-	-	166,247
<u>-</u>	<u>283,906</u>	<u>96,162</u>	<u>1,304,286</u>
<u>9,095</u>	<u>-</u>	<u>-</u>	<u>46,394</u>
-	-	14,879	14,879
-	-	-	403,900
-	3,204,706	-	3,204,706
-	-	-	111,520
886,848	-	-	886,848
-	-	8,697	8,697
-	-	-	-
-	-	229,174	229,174
-	-	185,229	185,229
-	-	-	5,041,238
<u>886,848</u>	<u>3,204,706</u>	<u>437,979</u>	<u>10,086,191</u>
<u>895,943</u>	<u>3,488,612</u>	<u>534,141</u>	<u>11,436,871</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
June 30, 2018

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

<u>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</u>	10,086,191
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$29,556,897 and the accumulated depreciation is \$19,728,634.	9,828,263
Property tax revenue is recognized when earned (claim to resources established) Rather than when "available." All of the deferred property tax revenue is not available.	46,394
Accrued interest payable is not considered current financial resources and, therefore, not reported in the governmental funds.	(5,930)
Long-Term Liabilities for general obligation debt, capital lease payable and compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	
Loans Payable	(4,640,000)
Compensated Absences	(19,930)
Bond Refunding	<u>103,279</u>
	(4,556,651)
Net pension and other post employment benefits liabilities, along with associated deferred flows, are not recorded at the fund level:	
Net Pension Liability	(42,047,103)
Net Other Post Employment Benefits Liability	(960,178)
Deferred Outflows	13,403,661
Deferred Inflows	<u>(2,862,998)</u>
<u>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</u>	<u>(17,068,351)</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>General</u>	<u>Grants Special Revenue Fund</u>	<u>Bond Redemption Debt Service</u>
<u>REVENUES:</u>			
Taxes	2,011,673	-	549,551
Intergovernmental	9,603,216	1,750,891	-
Interest	19,743	-	20,814
Other	487,249	-	-
<u>Total Revenues</u>	<u>12,121,881</u>	<u>1,750,891</u>	<u>570,365</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	5,398,491	2,111,588	-
Student Support	304,141	469,729	-
Instructional Staff	79,976	320,107	-
General Administration	307,884	-	-
School Administration	730,851	-	-
Business Services	122,620	-	-
Operations & Maintenance	1,706,415	-	-
Student Transportation	374,841	-	-
Central Support	459,181	19,381	-
Food Services	-	-	-
Community Services	194,236	-	-
Other	-	-	-
Capital Outlay	-	-	-
Debt Service	-	-	378,788
<u>Total Expenditures</u>	<u>9,678,636</u>	<u>2,920,805</u>	<u>378,788</u>
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>2,443,245</u>	<u>(1,169,914)</u>	<u>191,577</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Bond Proceeds	-	-	-
Proceeds From Refunding Loan	-	-	1,440,000
Bond Issue Costs	-	-	(82,144)
Payment to Refunding Loan Escrow Agent	-	-	(3,257,856)
Operating Transfers In (Out)	(1,407,258)	1,169,914	-
<u>Total Other Financing Sources (Uses)</u>	<u>(1,407,258)</u>	<u>1,169,914</u>	<u>(1,900,000)</u>
<u>NET CHANGES IN FUND BALANCES</u>	<u>1,035,987</u>	<u>-</u>	<u>(1,708,423)</u>
<u>FUND BALANCES, Beginning</u>	<u>4,520,671</u>	<u>-</u>	<u>2,595,271</u>
<u>FUND BALANCES, Ending</u>	<u>5,556,658</u>	<u>-</u>	<u>886,848</u>

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

<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-	-	2,561,224
541,527	894,929	12,790,563
25,975	904	67,436
-	447,032	934,281
<u>567,502</u>	<u>1,342,865</u>	<u>16,353,504</u>
-	417,427	7,927,506
-	-	773,870
-	-	400,083
-	-	307,884
-	-	730,851
-	-	122,620
-	-	1,706,415
-	-	374,841
-	3,782	482,344
-	972,169	972,169
-	-	194,236
-	-	-
590,136	240,664	830,800
-	60,647	439,435
<u>590,136</u>	<u>1,694,689</u>	<u>15,263,054</u>
<u>(22,634)</u>	<u>(351,824)</u>	<u>1,090,450</u>
3,200,000	-	3,200,000
-	-	1,440,000
(8,000)	-	(90,144)
-	-	(3,257,856)
-	237,344	-
<u>3,192,000</u>	<u>237,344</u>	<u>1,292,000</u>
3,169,366	(114,480)	2,382,450
<u>35,340</u>	<u>552,459</u>	<u>7,703,741</u>
<u>3,204,706</u>	<u>437,979</u>	<u>10,086,191</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

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

<u>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</u>	2,382,450
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Governmental Funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays more than \$5,000	795,479	
Depreciation Expense	<u>(690,442)</u>	105,037

Property tax revenues are not recognized for amounts levied and due but not "available" at year-end and are reported as deferred inflows in the governmental funds. They are, however, recorded as revenues in the statement of activities. 2,395

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The effect of premiums is recognized when the debt is issued in governmental funds, whereas these amounts are deferred and amortized in the statement of activities. Interest expense is recognized as it accrued in the statement of activities regardless of when it is due. The net effect of these differences follows:

Debt Proceeds	(4,640,000)	
Repayment of Debt Principal	3,412,131	
Interest Expense	29,430	
Deferred Refunding	<u>112,856</u>	(1,085,583)

Compensated absences do not use current financial resources and are not reported on the governmental fund financial statements but are recognized on the government-wide financial statements. 7,699

The increase in net pension and other post employment benefits liabilities, along with the changes and amortizations of deferred flows associated with those liabilities, are not recorded at the fund level.

Pension Cost		(7,158,188)
Other Post Employment Benefits Cost		<u>(24,872)</u>

<u>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</u>	<u>(5,771,062)</u>
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The accompanying notes are an integral part of these financial statements.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2018**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	34,770
Accounts Receivable	<u>-</u>
<u>Total Assets</u>	<u>34,770</u>
<u>LIABILITIES</u>	
Deposits Held for Others	<u>34,770</u>
<u>Total Liabilities</u>	<u>34,770</u>
<u>NET POSITION</u>	<u><u>-</u></u>

NOTES TO BASIC FINANCIAL STATEMENTS

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

East Otero School District Number R-1 of Otero County was reorganized by a vote of qualified electorate in 1961, under the provisions of the Colorado School Organization Act of 1957.

The District operates under an elected Board of Education with five members and provides educational services to approximately 1,375 students.

The District is the lowest level of government, which is considered to be financially accountable over all activities related to public school education in East Otero School District Number R-1. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

A. Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14 (as amended by Statement No. 34, No. 39 and No. 61), "*The Financial Reporting Entity*" (GASB No. 14) describes the financial reporting entity as it relates to governmental counting. According to this Statement, the financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations whose exclusion from the reporting entity's financial statements would cause those statements to be misleading or incomplete. Any organizations that can be described by these last two items are included with the primary government in the financial statements as component units.

This District is not included in any other governmental "reporting entity" as defined in GASB No. 14 and does not include any other component unit as part of its "reporting entity". As required by accounting principles generally accepted in the USA, these basic financial statements present the District (the primary government) and its component units.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds (General Fund, Bond Redemption Debt Service Fund, and Grants Special Revenue Fund) are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and unassigned fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

EAST OTERO SCHOOL DISTRICT NUMBER R-1

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services or privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

All governmental fund types use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available to collect within 60 days after year-end.

Property taxes are reported as receivables and deferred inflows when levied and as revenues when due for collection in the following year and determined to be available.

Grants and entitlement revenues are recognized when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain accrued sick and personal pay which are accounted for as expenditures when expected to be liquidated with expendable available financial resources.

The proprietary fund types are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Fund Accounting

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

- **Major Governmental Funds**

1. **General Fund** – the general operating fund of the District; used to account for all resources that are not required legally or by sound financial management to be accounted for in another fund.
2. **Bond Redemption Debt Service Fund** – used to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.
3. **Special Revenue Funds** – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
 - a. **Governmental Designated – Purpose Grants Fund** – used to account for restricted state and federal grants including, but not limited to, Every Student Succeeds Act programs which must be expended as designated by the grantor agency.
4. **Building Fund** – used to account for the construction and improvement of District buildings.

- **Fiduciary Funds**

1. **Trust and Agency Funds** – Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Cash and Investments

Cash represents amounts on deposit with financial institutions or held by the District. The District is allowed to invest in the following types of investments: short-term certificates of deposit, repurchase agreements, money market deposit accounts, mutual funds, government pools, and U.S. Treasury Obligations. The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments are recorded at fair value in accordance with GASB Statement No. 72 *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

F. Receivables

Property taxes levied in 2017 but not yet available in 2018 are identified as property taxes receivable and deferred inflows at June 30, 2018, and are presented net of an allowance for uncollectible taxes.

G. Inventories

Materials and supplies inventories are stated at cost. Inventories recorded in the Food Services Fund consist of purchased and donated commodities. Purchased inventories are stated at cost. Donated inventories, received at no cost under a program supported by the Federal Government, are recorded at their estimated fair value at the date of receipt.

The cost of all inventories is recorded as an asset when the individual inventory items are purchased, and as an expenditure or expense when consumed.

H. Capital Assets

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

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the governmental fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The District does not capitalize interest on the construction of capital assets in governmental funds. However, the District does capitalize interest on the construction of capital assets in business-type activities.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. Capital Assets (Continued)

The monetary threshold for capitalization of assets is \$5,000. The District's capital assets are depreciated using the straight-line method over the estimated useful lives of the fixed assets (5-50 years). Depreciation of all capital assets is charged as an expense against their operations. Depreciation is recorded in the year of acquisition and any remaining depreciation as recorded in the year of disposition.

I. Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position. The District records long-term debt of governmental funds at the face value. The District's general obligation bonds are serviced from property taxes and other revenues of the Debt Service Fund. Capital leases are serviced from property taxes and other revenues of the General Fund and Capital Reserve Capital Projects Fund. The long-term accumulated unpaid accrued sick and personal and vacation leave are serviced from property taxes and other revenues by the respective fund type from future appropriations.

J. Constitutional Amendment

In November 1992, Colorado voters approved Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations, which apply to the State of Colorado and local governments. It requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any entity.

On November 7, 1995 the registered voters approved a ballot resolution authorizing East Otero County School District Number R-1 to collect, retain and expend all revenues from any source provided that no property tax mill levy be increased or any new tax be imposed.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future years. TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be three percent or more of fiscal year spending (excluding bonded debt service). As of June 30, 2018, the District reserved \$403,900 for this purpose.

Spending and revenue limits are determined based on the prior fiscal year's spending adjusted for inflation in the prior calendar year plus annual increases in funded student enrollment. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. Property Taxes

Under Colorado law, all property taxes are due and payable in the year following the year levied. The 2017 property tax calendar for Otero County was as follows:

Levy Date	December 22, 2017
Lien Date	January 1, 2018
Tax Bills Mailed	January 1, 2018
First Installment Due	February 28, 2018
Second Installment Due	June 15, 2018
If Paid in Full, Due	April 30, 2018

L. Accumulated Sick and Personal Leave and Vacation

District policy allows support staff members who are employed full time for 12 calendar months shall earn .83 working days vacation with pay per month (10 working days per year).

Earned vacation may not be accumulated to more than an employee is qualified to receive (i.e. 10 or 15 days per year). Any earned vacation days beyond this amount must be paid out in the July payroll.

As of June 30, 2018, accumulated unused vacation amounted to \$17,805. District policy allows for the accumulation of discretionary leave to a maximum of 90 days. Upon separation from the district after 15 years or more of service to the district, or upon retirement under the Public Employees Retirement Association (PERA), a teacher shall be compensated at 100 percent of the substitute teacher rate per day for all discretionary days in excess of 50 days, up to a maximum of 40 days.

As of June 30, 2018, the accumulated discretionary leave liability amounted to \$2,125.

A summary of changes in compensated absences is as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Vacation	3,816	13,989	-	17,805
Discretionary Leave	<u>23,813</u>	<u>-</u>	<u>21,688</u>	<u>2,125</u>
<u>Total</u>	<u>27,629</u>	<u>13,989</u>	<u>21,688</u>	<u>19,930</u>

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

N. GASB Statement No. 54

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. Nonspendable such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District Board of Directors (the district's highest level of decision-making authority).
4. Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Fund Balance Classification Policies and Procedures

Committed Fund Balance Policy:

The District's Committed Fund Balance is fund balance reporting required by the School Board, either because of a School Board Policy in the School Board Policy Manual, or because of motions that passed at School Board meetings.

Assigned Fund Balance Policy:

The District's Assigned Fund Balance is fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business Officer.

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

First Non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then unrestricted fund balances are determined following the order of committed, assigned, and unassigned.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

N. GASB Statement No. 54 (Continued)

Fund Balance Classification by Fund:

	<u>Special Revenue</u>					<u>Capital Projects</u>		
	<u>Funds</u>					<u>Funds</u>		
	<u>General</u>	<u>Grants</u>	<u>Pupil</u>	<u>Food</u>	<u>Debt</u>	<u>Building</u>	<u>Capital</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Activity</u>	<u>Services</u>	<u>Service</u>	<u>Fund</u>	<u>Reserve</u>	<u>Governmental</u>
			<u>Fund</u>	<u>Fund</u>	<u>Fund</u>			<u>Funds</u>
<u>Nonspendable:</u>								
<u>Inventories</u>	-	-	-	14,879	-	-	-	14,879
<u>Restricted:</u>								
<u>Emergencies</u>	403,900	-	-	-	-	-	-	403,900
<u>Capital Outlay</u>	-	-	-	-	-	3,204,706	-	3,204,706
<u>Preschool</u>	111,520	-	-	-	-	-	-	111,520
<u>Debt Service</u>	-	-	-	-	886,848	-	-	886,848
<u>Food Service</u>	-	-	-	8,697	-	-	-	8,697
<u>Committed:</u>								
<u>Risk</u>								
<u>Management</u>	-	-	-	-	-	-	-	-
<u>Capital Outlay</u>	-	-	-	-	-	-	229,174	229,174
<u>Assigned</u>								
<u>Pupil Activities</u>	-	-	185,229	-	-	-	-	185,229
<u>Unassigned</u>	<u>5,041,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,041,238</u>
<u>Total Fund</u>								
<u>Balances</u>	<u>5,556,658</u>	<u>-</u>	<u>185,229</u>	<u>23,576</u>	<u>886,848</u>	<u>3,204,706</u>	<u>229,174</u>	<u>10,086,191</u>

O. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and the balance sheet 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

Governmental Funds – Interfund Transfers	\$1,407,258
Governmental Funds – Interfund Receivables / Payables	\$79,538

NOTE 3 **BUDGETARY INFORMATION**

Revenues and expenditures are controlled by budgetary accounting systems in accordance with various legal requirements. The budgeted revenues and expenditures represent the original adopted budget as subsequently adjusted by the Board of Education in accordance with Colorado School Laws. Budgets are generally prepared on the same basis as that used for accounting purposes.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Business Manager 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.
2. Public notices are released to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. The Business Manager is authorized to transfer budgeted amounts between categories within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration should be employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.
6. Budgets for the General, Special Revenue, Debt Service, Capital Projects Funds and Trust and Agency Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 **BUDGETARY INFORMATION (Continued)**

All appropriations lapse at the end of each fiscal year. Authorization to transfer budgeted amounts between programs and/or departments within any fund and the reallocation of budget line items within any program and/or department rests with the Superintendent of Schools and may be delegated to an appropriate level of management. Revisions and/or supplemental appropriations that alter the total expenditures of any fund must be approved by the Board of Education.

Budgetary amounts reported in the accompanying basic financial statements are as originally adopted and amended by the Superintendent and/or the Board of Education throughout the year.

NOTE 4 **CASH AND INVESTMENTS**

Deposits

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

At June 30, 2018, the District's bank balance and corresponding carrying balance were as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>	<u>Bank & Carrying Balance Certificates of Deposit</u>
Insured (FDIC)	500,000	500,000	250,000
Uninsured, Collateralized under the Public Deposit Protection Act of the State of Colorado	3,796,238	4,203,410	1,802,127
Cash Equivalents	867,687	867,687	
Cash with County Treasurer	37,578	-	-
Cash on Hand	310	-	-
<u>Total Cash and Deposits</u>	<u>5,201,813</u>	<u>5,571,097</u>	<u>2,052,127</u>

Deposits with a bank balance of \$6,005,537 and a carrying balance of \$5,598,365 as of June 30, 2018 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

RECAP

Cash	5,201,813
Certificates of Deposit	<u>2,052,127</u>
	<u>7,253,940</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 **CASH AND INVESTMENTS (Continued)**

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest:

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

Guaranteed investment contracts:

At June 30, 2018, the District had the following investments:

	<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	External Investment Pool	Under 60 Day Average	<u>3,414,058</u>

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities for managing possible fair value losses due to increasing interest rates.

Credit Risk – State Law limits the type of investments allowable. The investment of COLOTRUST is rated AAAM by Standard & Poor's.

Concentration of Credit Risk – the District has no policy restricting the amount that can be invested in any issuer.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has no recurring fair value measurements as of June 30, 2018:

- **COLOTRUST** – Investments in this external investment pool are reported at \$1 net asset value per share and are not subject to fair value measurement. The investment is reported at cost.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 **CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Balance June 30, 2018</u>
<u>Capital Assets Not Being Depreciated:</u>					
Land	257,210	-	-	-	257,210
Construction in Progress	-	-	-	-	-
<u>Total Capital Assets Not Being Depreciated:</u>	<u>257,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,210</u>
<u>Capital Assets Being Depreciated:</u>					
Land Improvements	674,529	-	-	-	674,529
Buildings & Improvements	24,201,617	604,146	-	-	24,805,763
Equipment & Vehicles	<u>3,628,062</u>	<u>191,333</u>	<u>-</u>	<u>-</u>	<u>3,819,395</u>
<u>Total Capital Assets Being Depreciated:</u>	<u>28,504,208</u>	<u>795,479</u>	<u>-</u>	<u>-</u>	<u>29,299,687</u>
<u>Less Accumulated Depreciation for:</u>					
Land Improvements	398,397	53,253	-	-	451,650
Buildings & Improvements	15,320,559	534,757	-	-	15,855,316
Equipment & Vehicles	<u>3,319,236</u>	<u>102,432</u>	<u>-</u>	<u>-</u>	<u>3,421,668</u>
<u>Total Accumulated Depreciation</u>	<u>19,038,192</u>	<u>690,442</u>	<u>-</u>	<u>-</u>	<u>19,728,634</u>
<u>Governmental Activities Capital Assets, Net</u>	<u>9,723,226</u>	<u>105,037</u>	<u>-</u>	<u>-</u>	<u>9,828,263</u>

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

Governmental Activities:

Instruction	528,189
Pupil Services	19,332
General Administration	2,762
Operations and Maintenance	50,402
Transportation	81,472
Food Service	<u>8,285</u>
<u>Total Depreciation Expense—Governmental Activities</u>	<u>690,442</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 **INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

<u>Governmental Funds:</u>	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	79,538	-	-	1,407,258
Student Activity	-	-	40,000	-
Grants	-	-	1,169,914	-
Food Service	-	79,538	-	-
Capital Reserve-Capital Projects	-	-	197,344	-
<u>Total</u>	<u>79,538</u>	<u>79,538</u>	<u>1,407,258</u>	<u>1,407,258</u>

Transfers were for operational purposes. Interfund receivables and payables are expected to be repaid within the subsequent year.

NOTE 7 **GENERAL OBLIGATION BONDS PAYABLE**

A. Series 2008, General Obligation Bonds

General Obligation (\$4,300,000) bonds (Series 2008) dated December 18, 2008 with a par value of \$5,000 each were issued on December 18, 2008. Interest at a coupon rate of 3.50% to 5.50% is payable each June 15 and December 15. Bond principal is due beginning December 15, 2017, and each year thereafter. Property taxes collected by the Debt Service Fund will be used to retire this bond issue. Bonds of the issue maturing in the years 2019 and thereafter are redeemable at the option of the District on December 15, 2019 and on any interest payment date thereafter in any order of maturity, upon payment of the principal amount (with no redemption premium), plus accrued interest to the redemption date. The bond issue was completely refunded on January 23, 2018.

B. Series 2018 A, General Obligation Loan

General Obligation (\$3,200,000) Loan (Series 2018 A) was issued dated January 23, 2018 with interest at 2.90% per annum, payable each June 15 and December 15. Principal is due beginning December 15, 2018, and each year thereafter. Property taxes collected by the Debt Service Fund will be used to retire the loan. The District shall have no right to prepay the loan prior to January 24, 2022. The loan may be prepaid in whole, but not in part, prior to maturity, by paying the entire principal balance thereof and accrued interest thereon, subject to a prepayment fee calculated on the outstanding principal balance of the loan to be prepaid at the time of prepayment. The prepayment fee is 1% if prepaid between January 24, 2022 and January 23, 2023. There is no prepayment fee if prepayment is made after January 23, 2023.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 **GENERAL OBLIGATION BONDS PAYABLE (Continued)**

B. Series 2018 A, General Obligation Loan (Continued)

<u>Fiscal Year</u>	<u>Interest Payable</u>	<u>Principal Payable</u>
2019	89,973	195,000
2020	84,317	195,000
2021	78,590	200,000
2022	72,718	205,000
2023	66,700	210,000
2024-2028	236,930	1,150,000
2029-2032	<u>61,842</u>	<u>1,045,000</u>
	<u>691,070</u>	<u>3,200,000</u>

C. Series 2018 B, General Obligation Refunding Loan

On January 23, 2018, the District issued \$1,440,000 in a General Obligation Refunding Loan with interest at 3.81% per annum, to advance refund the outstanding 2008 General Obligation bonds bearing interest ranging from 4.50% to 5.50%. Payments begin June 15, 2018 and continue every June 15 and December 15 each year thereafter. Refunding proceeds of \$1,440,000 along with \$1,900,000 from the Bond Redemption Fund less loan issue costs of \$82,144, in the amount of \$3,257,856, was deposited with an escrow agent to provide debt service payments of \$3,145,000 in principal and \$1,088,888 in interest on the 2008 Series Bonds. As a result, the 2008 bonds are considered to be defeased and the liability for the issue has been removed from the District financial statements.

The District completed the advance refunding to reduce the total debt service payments over the next 10 years by \$638,870 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$206,744.

As a result of the difference between the reacquisition price and the carrying amount of the old debt (including unamortized premium of \$37,622), a deferred refunding was recorded in the amount of \$112,856. It will be amortized against the interest costs of the 2018 B refunding issue.

<u>Fiscal Year</u>	<u>Interest Payable</u>	<u>Principal Payable</u>
2019	44,810	125,000
2020	38,125	130,000
2021	34,084	135,000
2022	29,967	135,000
2023	25,772	140,000
2024-2028	<u>60,619</u>	<u>775,000</u>
	<u>233,377</u>	<u>1,440,000</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 **GENERAL OBLIGATION BONDS PAYABLE (Continued)**

D. Changes in General Obligation Bonds / Loans

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>One Year</u>
Series 2008 G.O. Refunding Bonds	3,355,000	-	3,355,000	-	-
Series 2018 A G.O. Loan	-	3,200,000	-	3,200,000	195,000
Series 2018 B G.O. Refunding Loan	-	1,440,000	-	1,440,000	125,000
Total Bonds Payable	<u>3,355,000</u>	<u>4,640,000</u>	<u>3,355,000</u>	<u>4,640,000</u>	<u>320,000</u>
Deferred Amounts:					
Bond Premium	37,622	-	37,622	-	-
Deferred Refunding	-	(112,856)	(9,577)	(103,279)	(9,577)
Totals	<u>3,392,622</u>	<u>4,527,144</u>	<u>3,383,045</u>	<u>4,536,721</u>	<u>310,423</u>

NOTE 8 **CAPITAL LEASES PAYABLE**

A summary of changes in Capital Leases Payable are as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
General Governmental:					
Building	<u>57,131</u>	<u>-</u>	<u>57,131</u>	<u>-</u>	<u>-</u>

During fiscal year 2014, the District entered into a capital lease to purchase a building. Notwithstanding the fact that the District may elect not to renew the agreement in any year, it is the present intention of the District that the agreement will be renewed annually until full rights to the building are acquired. The annual interest rate is 4.0% with annual payments of \$30,323. The balance due as of June 30, 2018 was \$-0-.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 **PENSION PLAN**

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions. East Otero School District Number R-1 participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

General Information about the Pension Plan

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

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9

PENSION PLAN (Continued)

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

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

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

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 **PENSION PLAN (Continued)**

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.

Contribution provisions as of June 30, 2018. Eligible employees and East Otero School District Number R-1 are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. 24-51-401, et seq. Eligible employees are required to contribute 8 percent of their PERA- includable salary. The employer contribution requirements are summarized in the table below.

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer Contribution Rate	10.15 %	10.15 %
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. 24-51-208 (1) (f)	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. 24-51-411	5.000%	5.50%
Total Employer Contribution Rate to the SCHDTF	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the East Otero School District Number R-1 is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from East Otero School District Number R-1 were \$1,172,677 for the year ended June 30, 2018.

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

At June 30, 2018, the East Otero School District Number R-1 reported a liability of \$42,047,103 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The East Otero School District Number R-1 proportion of the net pension liability was based on East Otero School District Number R-1 contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the East Otero School District Number R-1 proportion was 0.1300 percent, which was an increase of 0.0017 from its proportion measured as of December 31, 2016.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 **PENSION PLAN (Continued)**

For the year ended June 30, 2018, the East Otero School District Number R-1 recognized pension expense of \$7,158,188. At June 30, 2018, the East Otero School District Number R-1 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	773,069	-
Changes of assumptions or other inputs	10,736,187	(68,129)
Net difference between projected and actual earnings on pension plan investments	833,563	(2,484,793)
Changes in proportion and differences between contributions recognized and proportionate share of contributions	409,485	(294,012)
Contributions subsequent to the measurement date	604,644	N/A
Total	13,356,948	(2,846,934)

\$604,644 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2019	6,573,490
2020	3,855,652
2021	97,427
2022	(621,199)
2023	-
Thereafter	-

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 **PENSION PLAN (Continued)**

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

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

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

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

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

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

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 **PENSION PLAN (Continued)**

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

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9

PENSION PLAN (Continued)

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9

PENSION PLAN (Continued)

Sensitivity of the East Otero School District Number R-1 proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (6.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	53,112,614	42,047,103	33,029,935

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

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

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

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9

PENSION PLAN (Continued)

At June 30 2018, the East Otero School District Number R-1 reported a liability of \$42,047,103 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the East Otero School District Number R-1's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	18,996,517

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$19,627,851 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

Defined Contribution Pension Plan

Voluntary Investment Program

Plan Description – Employees of the East Otero School District Number R-1 that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA, Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report which includes additional information on the Voluntary Investment Program. 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. Employees are immediately vested in their own contributions and investment earnings. For the year ended June 30, 2018, program members contributed \$11,332.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS**

Defined Benefit And Other Post Employment Benefit (OPEB) Plan

Summary of Significant Accounting Policies

OPEB. East Otero School District Number R-1 participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the OPEB Plan

Plan Plan description. Eligible employees of the East Otero School District Number R-1 are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

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

PERA Benefit Structure

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

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

DPS Benefit Structure

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

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the East Otero School District Number R-1 is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from East Otero School District Number R-1 were \$63,346 for the year ended June 30, 2018.

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

At June 30, 2018, the East Otero School District Number R-1 reported a liability of \$960,178 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The East Otero School District Number R-1 proportion of the net OPEB liability was based on East Otero School District Number R-1 contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the East Otero School District Number R-1 proportion was 0.07388 percent, which was an increase of 0.00091 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the East Otero School District Number R-1 recognized OPEB expense of \$24,872. At June 30, 2018, the East Otero School District Number R-1 reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	4,541	-
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(16,064)
Changes in proportion and differences between contributions recognized and proportionate share of contributions	9,926	-
Contributions subsequent to the measurement date	32,246	N/A
Total	46,713	(16,064)

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

\$32,246 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2019	(1,182)
2020	(1,166)
2021	(1,181)
2022	(1,166)
2023	2,835
Thereafter	263

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

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

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

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

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

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

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

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (Continued)

- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

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

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

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

Sensitivity of the East Otero School District Number R-1 proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	933,760	960,178	991,997

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 **OTHER POST EMPLOYMENT BENEFITS (Continued)**

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	1,079,542	960,178	858,298

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 12 **COLORADO SCHOOL DISTRICT SELF INSURANCE POOL**

The District belongs to the Colorado School District's Self-Insurance Pool. The Pool was established by the Colorado Association of School Boards (CASB) to provide insurance coverage to participants in the areas of General Liability, Errors and Omissions, Automobile Liability, Auto Physical Damage, Auto Personal Injury Protection, Real and Personal Property, Crime, and other coverage. The Board of Directors is composed of nine persons; all of whom are appointed by the Board of Directors of CSDSIP. The Pool is managed by an executive director chosen by the Board of Directors. Each member's initial contribution and subsequent contributions are determined by the Pool based on factors including, but not limited to, the Aggregate Pool claims, the cost of Administrative and other operating expenses, the number of participants, the adequacy of both Operating and Reserve Funds and other factors touching on the status of the Pool or an individual participant, and as approved by the Colorado Insurance Commissioner.

As the District did not exercise oversight responsibility nor have sufficient control over Pool activities, the Pool is not a component unit of the District and only the District's share of contributions to the Pool is recorded as Expenditures in the Insurance Reserve Fund.

The District's share in the Pool is not determinable from current information, but is estimated to be less than 1%. The District's share, if calculated, would not be material to the Pool's financial information at June 30, 2018.

An audited summary of the Colorado School District's Pool financial information at June 30, 2018 and for the six months then ended (latest information available) follows:

Total Assets	<u>42,273,940</u>
Total Liabilities	<u>11,655,251</u>
Total Equity	<u>30,618,689</u>
Revenue	7,429,394
Underwriting Expenses	<u>4,126,717</u>
Underwriting Gain (Loss)	<u>3,302,677</u>
Net Investment Income	276,653
Other Income	<u>-</u>
Net Income (Loss) Before Dividend	3,579,330
Dividend	<u>-</u>
Net Income	<u>3,579,330</u>
Change in Non Admitted Assets	<u>253,606</u>
Return of Capital Contributions to Members	<u>-</u>
Unassigned Surplus	<u>30,618,689</u>

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 13 **SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

Claims and Judgments - The District participates in a number of federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited by the grantor but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the District.

NOTE 14 **JOINT VENTURES**

Santa Fe Trail Board of Cooperative Educational Services (BOCES)

Not reflected in the accompanying financial statements is the District's participation in the Santa Fe Trail Board of Cooperative Educational Services (BOCES). The BOCES is an organization that provides member districts educational services at a shared lower cost per District.

The District has one member on the Board. The Board has final authority for all budgeting and financing of the joint venture. The District's share of the joint venture is not determinable at June 30, 2018. The joint venture summary audited financial information as of June 30, 2017 is as follows:

Assets	1,041,959
Deferred Outflows of Resources	3,359,653
Liabilities	9,231,537
Deferred Inflows of Resources	48,231
Net Position	<u>(4,878,156)</u>
Revenues	2,769,488
Expenditures	<u>4,140,865</u>
Excess (Deficiency)	<u>(1,371,377)</u>

The B.O.C.E.S. has no long term debt.

The equity interest of each member District is not known, nor is the change in such interest. The equity interest will be determined only at the disbanding of the B.O.C.E.S.

The BOCES is not included as a component unit of the District as the financial responsibility is minimal, there is no financial interdependency, the District does not have the ability to significantly influence the operations of the BOCES and the District is not accountable for fiscal matters of the BOCES.

Financial statements are filed annually with the Colorado State Auditor's Office.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 **ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, at June 30, 2018 are estimated to be \$568,973. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the various funds.

NOTE 16 **COMPLIANCE WITH BUDGET LAWS**

The actual expenditures of the following funds exceeded their budget and may be in violation of Colorado Budget Law:

Grants Special Revenue Fund	\$243,346
Building Capital Projects Fund	\$196,995
Bond Redemption Debt Service Fund	\$534,969

NOTE 17 **RESTATEMENT OF BEGINNING NET POSITION**

The net position of the governmental activities has been restated to reflect the implementation of GASB Statement 75. That statement requires that the District report their portion of any post employment benefit (OPEB) liability, and related deferred flows. The beginning net position of \$(10,392,632) has been changed by the net OPEB liability at June 30, 2017 of \$(946,036) and related deferred flows of \$41,379, resulting in a restated beginning net position of \$(11,297,289).

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISONS

PENSION TREND DATA

OTHER POST EMPLOYMENT BENEFIT TREND DATA

MAJOR GOVERNMENTAL FUNDS

General Fund

The General Fund accounts for all transactions of the District not accounted for in other funds. This fund represents an accounting for the District's ordinary operations financed from property taxes and other general revenues. It is the most significant fund in relation to the District's overall operations.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Grants Fund – This fund is provided to maintain a separate accounting for federal and state grant funded programs which normally have a different fiscal period than that of the District.

Pension Trend Data

Other Post Employment Benefits Trend Data

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Property Taxes	1,726,445	1,667,424	(59,021)
Specific Ownership Taxes	336,856	338,231	1,375
Earnings on Investments	15,000	19,743	4,743
Delinquent Taxes and Interest	6,000	6,018	18
Tuition/Concurrent Enrollment	200,000	180,656	(19,344)
Rental	40,000	40,693	693
Local Grants	-	-	-
Other	241,264	20,984	(220,280)
Insurance Claims	245,000	244,916	(84)
<u>County Sources</u>			
Impact Assistance	200	-	(200)
<u>State Sources</u>			
Equalization	9,456,100	9,451,423	(4,677)
Transportation	47,700	47,844	144
Read Act	81,000	81,398	398
Library Grant	4,000	4,000	-
Leveraging 5 th Day Grant	-	2,964	2,964
At Risk Funding	15,500	15,587	87
<u>Total Revenues</u>	<u>12,415,065</u>	<u>12,121,881</u>	<u>(293,184)</u>
<u>EXPENDITURES</u>			
<u>Instruction</u>	<u>6,188,630</u>	<u>5,398,491</u>	<u>790,139</u>
<u>Supporting Services:</u>			
Students	397,043	304,141	92,902
Instructional Staff	82,880	79,976	2,904
General Administration	338,822	307,884	30,938
School Administration	743,278	730,851	12,427
Business Services	128,026	122,620	5,406
Operations and Maintenance	1,833,350	1,706,415	126,935
Student Transportation	404,338	374,841	29,497
Central Support	509,474	459,181	50,293
Community Services	204,996	194,236	10,760
Facilities	-	-	-
<u>Total Supporting Services</u>	<u>4,642,207</u>	<u>4,280,145</u>	<u>362,062</u>
<u>Appropriated Reserves</u>	<u>3,312,726</u>	<u>-</u>	<u>3,312,726</u>
<u>Total Expenditures</u>	<u>14,143,563</u>	<u>9,678,636</u>	<u>4,464,927</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES OVER (UNDER)</u> <u>EXPENDITURES</u>	(1,728,498)	2,443,245	
<u>Other Financing Sources (Uses)</u>			
Transfers In (Out)	(1,462,941)	(1,407,258)	55,683
<u>Total Other Financing Source (Uses)</u>	(1,462,941)	(1,407,258)	55,683
<u>Revenues and Other Financing Sources Over</u> <u>(Under) Expenditures and Other Uses</u>	(3,191,439)	1,035,987	
<u>FUND BALANCE, Beginning</u>	3,191,439	4,520,671	
<u>FUND BALANCE, Ending</u>	<u> -</u>	<u>5,556,658</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GRANTS – SPECIAL REVENUE FUND
For the Year Ended June 30, 2018**

	<u>Budget Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance with Final Budget- Favorable (Unfavorable)
<u>REVENUES:</u>			
Local Sources	5,000	-	(5,000)
State Sources	126,639	426,518	299,879
Federal Sources	<u>1,606,580</u>	<u>1,324,373</u>	<u>(282,207)</u>
<u>Total Revenues</u>	<u>1,738,219</u>	<u>1,750,891</u>	<u>12,672</u>
<u>EXPENDITURES:</u>			
Current:			
Instruction	2,001,903	2,111,588	(109,685)
Student Support	413,511	469,729	(56,218)
Instructional Support	180,849	320,107	(139,258)
Central Support Services	25,079	19,381	5,698
Appropriated Reserve	<u>56,117</u>	<u>-</u>	<u>56,117</u>
<u>Total Expenditures</u>	<u>2,677,459</u>	<u>2,920,805</u>	<u>(243,346)</u>
<u>EXCESS OF REVENUES OVER</u>			
<u>EXPENDITURES</u>	<u>(939,240)</u>	<u>(1,169,914)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	<u>939,240</u>	<u>1,169,914</u>	<u>230,674</u>
<u>Total Financing Sources (Uses)</u>	<u>939,240</u>	<u>1,169,914</u>	<u>230,674</u>
<u>EXCESS OF REVENUES AND OTHER</u>			
<u>FINANCING SOURCES OVER (UNDER)</u>			
<u>EXPENDITURES AND OTHER USES</u>	-	-	
<u>FUND BALANCE, Beginning</u>	-	-	
<u>FUND BALANCE, Ending</u>	-	-	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Last 10 Fiscal Years (As Available)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
District's proportion of the net pension liability (asset)	0.1300%	0.1284%	0.1274%	0.1398%	0.1414%	-	-	-	-	-
District's proportionate share of the net pension liability (asset)	\$42,047,103	\$38,220,488	\$19,491,524	\$18,945,018	\$18,040,214	-	-	-	-	-
District's covered-employee payroll	\$6,210,436	\$5,815,736	\$5,696,167	\$5,822,142	\$5,750,544	-	-	-	-	-
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	677%	657%	342%	325%	314%	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.13%	59.16%	62.80%	64.06%	-	-	-	-	-

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION
For The Last 10 Fiscal Years (As Available)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contributions	\$1,172,677	\$1,069,003	\$1,010,077	\$982,214	\$977,021	\$854,970	-	-	-	-
Contributions in relation to the contractually required contributions	<u>\$ (1,172,677)</u>	<u>\$ (1,069,003)</u>	<u>\$ (1,010,077)</u>	<u>\$ (982,214)</u>	<u>\$ (977,021)</u>	<u>\$ (854,970)</u>	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	-	-
District's covered-employee payroll	\$6,210,436	\$5,815,736	\$5,696,167	\$5,822,142	\$5,750,544	\$5,669,608	-	-	-	-
Contributions as a percentage of covered-employee payroll	18.88%	18.38%	17.73%	16.87%	16.99%	15.08%	-	-	-	-

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF PROPORTIONATE SHARE OF NET OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY
For The Last 10 Fiscal Years (As Available)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
District's proportion of the net OPEB liability (asset)	0.0739%	0.0730%	-	-	-	-	-	-	-	-
District's proportionate share of the net OPEB liability (asset)	\$960,178	\$946,036	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$6,210,436	\$5,696,167	-	-	-	-	-	-	-	-
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	15.46%	16.61%	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%	16.71%	-	-	-	-	-	-	-	-

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF DISTRICT CONTRIBUTIONS - OPEB
For The Last 10 Fiscal Years (As Available)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contributions	\$ 63,346	\$ 58,040	-	-	-	-	-	-	-	-
Contributions in relation to the contractually required contributions	<u>\$(63,346)</u>	<u>\$(58,040)</u>	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$6,210,436	\$5,696,167	-	-	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	1.02%	1.02%	-	-	-	-	-	-	-	-

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

COMBINING AND INDIVIDUAL FUND STATEMENTS AND OTHER SCHEDULES

Bond Redemption Fund

Bond Redemption Debt Service Fund – Use to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.

Capital Projects Fund

Building Fund – This fund accounts for the construction and improvements of District buildings. Bond proceeds are used to finance these projects.

NON MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds account for revenues that are legally restricted to expenditures for specified purposes.

Student Activity Fund – This fund accounts for the financial activities associated with student support.

Food Service Fund – This fund accounts for all financial activities associated with the District's school breakfast and lunch programs.

Capital Project Funds

Capital Reserve Capital Project Fund – This fund accounts for the acquisition of sites, buildings, equipment and vehicles.

FIDUCIARY FUNDS

Fiduciary Fund Types

Agency Fund – **PTO Fund** – This fund is used to account for amounts held in a fiduciary capacity for organizations.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
BOND REDEMPTION DEBT SERVICE FUND
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance with Final Budget- Favorable (Unfavorable)
<u>REVENUES</u>			
Property Taxes	610,000	423,635	(186,365)
Specific Ownership Taxes	111,000	123,392	12,392
Delinquent Taxes & Interest	3,000	2,524	(476)
Interest Earnings	<u>1,200</u>	<u>20,814</u>	<u>19,614</u>
<u>Total Revenues</u>	<u>725,200</u>	<u>570,365</u>	<u>(154,835)</u>
<u>EXPENDITURES:</u>			
Debt Service:			
Principal Retirement	205,000	210,000	(5,000)
Interest and Fiscal Charges	182,725	168,788	13,937
Appropriated Reserve	<u>2,804,094</u>	<u>-</u>	<u>2,804,094</u>
<u>Total Expenditures</u>	<u>3,191,819</u>	<u>378,788</u>	<u>2,813,031</u>
<u>EXCESS OF REVENUES OVER</u>			
<u>EXPENDITURES</u>	<u>(2,466,619)</u>	<u>191,577</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Refunding Bond	-	1,440,000	1,440,000
Bond Issue Costs	-	(82,144)	(82,144)
Payment to Refunded Bond Escrow Agent	-	<u>(3,257,856)</u>	<u>(3,257,856)</u>
<u>Total Other Financing Sources (Uses)</u>	<u>-</u>	<u>(1,900,000)</u>	<u>(1,900,000)</u>
<u>NET CHANGES IN FUND BALANCE</u>	<u>(2,466,619)</u>	<u>(1,708,423)</u>	
<u>FUND BALANCES, Beginning</u>	<u>2,466,619</u>	<u>2,595,271</u>	
<u>FUND BALANCES, Ending</u>	<u>-</u>	<u>886,848</u>	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUILDING FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES</u>			
State Source BEST Grant	357,756	541,527	183,771
Earnings on Investments	<u>45</u>	<u>25,975</u>	<u>25,930</u>
<u>Total Revenues</u>	<u>357,801</u>	<u>567,502</u>	<u>209,701</u>
<u>EXPENDITURES</u>			
Site Improvements	-	20,690	(20,690)
Building and Improvements	357,756	569,446	(211,690)
Appropriated Reserve	<u>35,385</u>	<u>-</u>	<u>35,385</u>
<u>Total Expenditures</u>	<u>393,141</u>	<u>590,136</u>	<u>(196,995)</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(35,340)</u>	<u>(22,634)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Bond Proceeds	-	3,200,000	3,200,000
Bond Issuance Costs	<u>-</u>	<u>(8,000)</u>	<u>(8,000)</u>
<u>Total Other Financing Sources (Uses)</u>	<u>-</u>	<u>3,192,000</u>	<u>3,192,000</u>
<u>REVENUES OVER (UNDER) OTHER FINANCING</u> <u>SOURCES (USES) AND EXPENDITURES</u>	<u>(35,340)</u>	<u>3,169,366</u>	
<u>FUND BALANCE, Beginning</u>	<u>35,340</u>	<u>35,340</u>	
<u>FUND BALANCE, Ending</u>	<u>-</u>	<u>3,204,706</u>	

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	<u>Special Revenue Fund</u>		<u>Capital Projects Capital Reserve</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Student Activity</u>	<u>Food Service</u>		
<u>ASSETS</u>				
Cash & Investments	185,229	-	230,230	415,459
Accounts Receivable	-	5,000	-	5,000
Accrued Revenue	-	98,803	-	98,803
Inventories	-	14,879	-	14,879
Due From Other Funds	-	-	-	-
<u>Total Assets</u>	<u>185,229</u>	<u>118,682</u>	<u>230,230</u>	<u>534,141</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities:</u>				
Accounts Payable	-	15,568	1,056	16,624
Accrued Salaries	-	-	-	-
Due To Other Funds	-	79,538	-	79,538
<u>Total Liabilities</u>	<u>-</u>	<u>95,106</u>	<u>1,056</u>	<u>96,162</u>
<u>Fund Balances:</u>				
Nonspendable:				
Inventories	-	14,879	-	14,879
Restricted for:				
Capital Outlay	-	-	-	-
Food Service	-	8,697	-	8,697
Committed for:				
Capital Outlay	-	-	229,174	229,174
Assigned for:				
Pupil Activities	185,229	-	-	185,229
<u>Total Fund Balances</u>	<u>185,229</u>	<u>23,576</u>	<u>229,174</u>	<u>437,979</u>
<u>TOTAL LIABILITIES & FUND BALANCES</u>	<u>185,229</u>	<u>118,682</u>	<u>230,230</u>	<u>534,141</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>Special Revenue Fund</u>		<u>Capital Projects Capital Reserve</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Student Activity</u>	<u>Food Service</u>		
<u>REVENUES</u>				
Local Sources	387,263	60,673	-	447,936
State Sources	-	7,217	-	7,217
Federal Sources	-	887,712	-	887,712
<u>Total Revenues</u>	<u>387,263</u>	<u>955,602</u>	<u>-</u>	<u>1,342,865</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	417,427	-	-	417,427
Support Services:				
Transportation	-	-	-	-
Central Support	3,782	-	-	3,782
Food Services	-	972,169	-	972,169
Capital Outlay	-	-	240,664	240,664
Debt Service	-	-	60,647	60,647
<u>Total Expenditures</u>	<u>421,209</u>	<u>972,169</u>	<u>301,311</u>	<u>1,694,689</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(33,946)</u>	<u>(16,567)</u>	<u>(301,311)</u>	<u>(351,824)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	40,000	-	197,344	237,344
<u>Total Other Financing Sources (Uses)</u>	<u>40,000</u>	<u>-</u>	<u>197,344</u>	<u>237,344</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>6,054</u>	<u>(16,567)</u>	<u>(103,967)</u>	<u>(114,480)</u>
<u>FUND BALANCES, Beginning</u>	<u>179,175</u>	<u>40,143</u>	<u>333,141</u>	<u>552,459</u>
<u>FUND BALANCES, Ending</u>	<u>185,229</u>	<u>23,576</u>	<u>229,174</u>	<u>437,979</u>

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

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
STUDENT ACTIVITY – SPECIAL REVENUE FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES:</u>			
Local Revenues	<u>305,000</u>	<u>387,263</u>	<u>82,263</u>
<u>Total Revenues</u>	<u>305,000</u>	<u>387,263</u>	<u>82,263</u>
<u>EXPENDITURES</u>			
Instructional	<u>429,383</u>	<u>417,427</u>	<u>11,956</u>
Central Support Services	<u>7,386</u>	<u>3,782</u>	<u>3,604</u>
Appropriated Reserve	<u>58,748</u>	<u>-</u>	<u>58,748</u>
<u>Total Expenditures</u>	<u>495,517</u>	<u>421,209</u>	<u>74,308</u>
<u>EXCESS OF REVENUES OVER</u>			
<u>(UNDER) EXPENDITURES</u>	<u>(190,517)</u>	<u>(33,946)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers (Out)	<u>38,000</u>	<u>40,000</u>	<u>2,000</u>
<u>Total Other Financing</u>			
<u>Sources (Uses)</u>	<u>38,000</u>	<u>40,000</u>	<u>2,000</u>
<u>EXCESS OF REVENUES AND OTHER</u>			
<u>FINANCING SOURCES OVER (UNDER)</u>			
<u>EXPENDITURES AND OTHER USES</u>	<u>(152,517)</u>	<u>6,054</u>	
<u>FUND BALANCE, Beginning</u>	<u>152,517</u>	<u>179,175</u>	
<u>FUND BALANCE, Ending</u>	<u>-</u>	<u>185,229</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOOD SERVICE – SPECIAL REVENUE FUND
For the Year Ended June 30, 2018**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
<u>Local Sources</u>				
Food Sales	58,000	58,000	59,852	1,852
Interest Earned	750	750	821	71
<u>Total Local Sources</u>	<u>58,750</u>	<u>58,750</u>	<u>60,673</u>	<u>1,923</u>
<u>State Sources</u>				
State Match	7,000	7,000	7,217	217
Smart Start	5,000	5,000	-	(5,000)
<u>Total State Sources</u>	<u>12,000</u>	<u>12,000</u>	<u>7,217</u>	<u>(4,783)</u>
<u>Federal Sources</u>				
School Lunches	751,000	751,000	795,747	44,747
Fresh Fruits and Vegetables	87,600	87,600	40,562	(47,038)
Commodities	40,000	40,000	51,403	11,403
<u>Total Federal Sources</u>	<u>878,600</u>	<u>878,600</u>	<u>887,712</u>	<u>9,112</u>
<u>TOTAL REVENUES</u>	<u>949,350</u>	<u>949,350</u>	<u>955,602</u>	<u>6,252</u>
<u>EXPENDITURES</u>				
Salaries	1,800	1,800	2,000	(200)
Benefits	750	750	368	382
Contracted Services	1,023,282	1,023,282	894,294	128,988
Repairs & Maintenance	1,500	1,500	1,418	82
Supplies	2,500	2,500	1,387	1,113
Food Expense	33,000	33,000	21,299	11,701
Commodities	40,000	40,000	51,403	(11,403)
Appropriated Reserve	7,688	157,688	-	157,688
<u>TOTAL EXPENDITURES</u>	<u>1,110,520</u>	<u>1,260,520</u>	<u>972,169</u>	<u>288,351</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(161,170)</u>	<u>(311,170)</u>	<u>(16,567)</u>	
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	121,027	271,027	-	(271,027)
<u>OTHER FINANCING SOURCES (USES) AND EXPENDITURES</u>	<u>(40,143)</u>	<u>(40,143)</u>	<u>(16,567)</u>	
<u>FUND BALANCE, Beginning</u>	<u>40,143</u>	<u>40,143</u>	<u>40,143</u>	
<u>FUND BALANCE, Ending</u>	<u>-</u>	<u>-</u>	<u>23,576</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
CAPITAL RESERVE – CAPITAL PROJECTS FUND
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES:</u>			
Other	—	—	—
<u>Total Revenues</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>EXPENDITURES</u>			
Equipment	45,000	11,333	33,667
Buildings	79,000	103,960	(24,960)
Vehicles	150,000	125,371	24,629
Debt Service:			
Lease Purchase Interest	4,477	3,515	962
Lease Purchase Principal	25,847	57,132	(31,285)
Appropriated Reserve	430,116	—	430,116
<u>Total Expenditures</u>	<u>734,440</u>	<u>301,311</u>	<u>433,129</u>
<u>EXCESS (DEFICIENCY) OF REVENUES</u>			
<u>OVER (UNDER) EXPENDITURES</u>	<u>(734,440)</u>	<u>(301,311)</u>	
<u>OTHER FINANCINE SOURCES (USES)</u>			
Transfers In (Out)	400,000	197,344	(202,656)
<u>Total Other Financing Sources (Uses)</u>	<u>400,000</u>	<u>197,344</u>	<u>(202,656)</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>(334,440)</u>	<u>(103,967)</u>	
<u>FUND BALANCE, Beginning</u>	<u>334,440</u>	<u>333,141</u>	
<u>FUND BALANCE, Ending</u>	<u>—</u>	<u>229,174</u>	

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF CHANGES IN RECEIPTS
AND DISBURSEMENTS - BUDGET AND ACTUAL
FIDUCIARY FUNDS
For the Year Ended June 30, 2018**

	<u>Agency Funds</u>		<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Budgeted Amounts Original & Final</u>	<u>Actual</u>	
<u>ADDITIONS</u>			
Local Receipts	<u>71,190</u>	<u>80,415</u>	<u>9,225</u>
<u>DEDUCTIONS</u>			
Disbursements PTO	70,000	85,321	(15,321)
Operating Reserve	<u>40,866</u>	<u>-</u>	<u>40,866</u>
<u>Total Deductions</u>	<u>110,866</u>	<u>85,321</u>	<u>25,545</u>
<u>CHANGES IN DUE TO OTHERS</u>	(39,676)	(4,906)	
<u>DUE TO OTHERS, Beginning</u>	<u>39,676</u>	<u>39,676</u>	
<u>DUE TO OTHERS, Ending</u>	<u>-</u>	<u>34,770</u>	

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

OTHER SCHEDULES

Auditor's Integrity Report (Revenues, Expenditures, and Fund Balance by Fund)

Bolded Balance Sheet Report



Colorado Department of Education
Auditors Integrity Report
District: 2520 - EAST OTERO R-1
Fiscal Year 2017-18
Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental				
16 General Fund	4,418,965	10,247,676	9,221,503	5,445,138
18 Risk Mgmt Sub-Fund of General Fund	0	102,656	102,656	0
19 Colorado Preschool Program Fund	101,706	364,291	354,477	111,520
Sub-Total	4,520,671	10,714,623	9,678,636	5,556,658
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main, Fund	0	0	0	0
31 Food Service Spec Revenue Fund	40,143	955,602	972,169	23,576
22 Govt Designated-Purpose Grants Fund	0	2,920,805	2,920,805	0
23 Pupil Activity Special Revenue Fund	179,175	427,263	421,209	185,229
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	2,595,271	2,010,365	3,718,788	886,848
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	35,340	3,767,502	598,136	3,204,706
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	333,141	197,344	301,312	229,174
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	4,520,671	10,714,623	9,678,636	5,556,658
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (65) Risk-Related Activity Fund	0	0	0	0
69 (64, 69) Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	39,676	80,415	85,321	34,770
79 GASB 34 Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	39,676	80,415	85,321	34,770
FINAL				
Totals	4,560,347	10,795,038	9,763,957	5,591,428



Colorado Department of Education
Bolded Balance Sheet Report
 District: 2520 - EAST OTERO R-1
 Fiscal Year 2017-18
 Colorado School District/BOCES

ASSETS	Governmental					Proprietary					Fiduciary				
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45,47-49	Supplemental Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Cash and Investments (8100-8104,8111)	6,007,508	0	18,516	187,510	0	0	0	867,687	3,514,429	0	0	0	34,770	0	10,630,420
Cash with Fiscal Agent (8105)	29,973	0	0	0	0	0	0	7,605	0	0	0	0	0	0	37,578
Other Investment Accounts (8112-8115)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes Receivable (8121,8122)	81,630	0	0	0	0	0	0	20,652	0	0	0	0	0	0	102,282
Interfund Loans Receivable (8131,8132)	79,538	0	93,004	0	0	0	0	0	0	0	0	0	0	0	172,542
Grants Accounts Receivable (8142)	82,998	0	0	215,731	0	98,803	0	204,412	0	0	0	0	0	0	601,945
Other Receivables (8151-8154,8161)	0	0	0	0	0	5,000	0	0	0	0	0	0	0	0	5,000
Inventories (8171,8172,8173)	0	0	0	0	0	14,878	0	0	0	0	0	0	0	0	14,878
Machinery and Equipment (8241,8242,8251)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets	6,281,647	0	111,520	403,241	0	118,681	895,944	3,718,842	0	0	0	0	34,770	0	11,564,644

	Governmental						Proprietary				Fiduciary			
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45, 47-49	Supplemental Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85
LIABILITIES & FUND EQUITY														
LIABILITIES														
Interfund Payables (7401-7402)	93,004	0	0	0	0	79,538	0	0	0	0	0	0	0	0
Other Payables (7421-7423)	187,819	0	0	1,179	0	15,568	0	284,962	0	0	0	0	0	0
Contracts Payable (7431-7433)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Expenses (7461)	403,066	0	0	165,907	0	0	0	0	0	0	0	0	0	0
Payroll Ded. and Withholdings (7471-7473)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned Revenue (7481)	0	0	0	0	0	0	9,095	0	0	0	0	0	0	9,095
Grants Deferred Revenue (7482)	115,321	0	0	50,926	0	0	0	0	0	0	0	0	0	0
Deferred Inflow (7800)	37,299	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities	836,509	0	0	218,012	0	95,106	9,095	284,962	0	0	0	0	0	1,443,684

Governmental

Proprietary

Fiduciary

FUND EQUITY

	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45, 47-49	Supplemental Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Non-spendable Fund Balance 6710	0	0	0	0	0	14,878	0	0	0	0	0	0	0	0	14,878
Restricted Fund Balance 6720	0	0	0	0	0	8,697	886,848	3,204,706	0	0	0	0	0	0	4,100,252
TABOR 3% Emergency Reserve 6721	403,900	0	0	0	0	0	0	0	0	0	0	0	0	0	403,900
TABOR Multi-Year 6723	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
District Emergency Reserve (letter of credit or real estate) 6723	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Colorado Preschool Program (CPP) Reserve 6724	0	0	111,520	0	0	0	0	0	0	0	0	0	0	0	111,520
Full-Day Kindergarten Reserve 6725	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk-Related / Restricted Capital Reserve 6726	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BEST Capital Reserve 6727	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Committed Fund Balance 6750	0	0	0	0	0	0	0	229,174	0	0	0	0	0	0	229,174
Assigned Fund Balance 6760	5,041,238	0	0	185,229	0	0	0	0	0	0	0	0	0	0	185,229
Unassigned Fund Balance 6770	0	0	0	0	0	0	0	0	0	0	0	0	34,770	0	5,076,008
Invested in Capital Assets, Net of Related Debt 6790	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restricted Net Assets 6791	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unrestricted Net Assets 6792	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prior Period Adjustment 6880	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Fund Equity	5,445,136	0	111,520	185,229	0	23,576	886,848	3,433,880	0	0	0	0	34,770	0	10,120,960

	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45, 47-49	Supplemental Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Total Liabilities & Fund Equity	6,281,647	0	111,520	403,241	0	118,681	895,944	3,718,842	0	0	0	0	34,770	0	11,564,644

	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45, 47-49	Supplemental Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Total Liabilities & Fund Equity	6,281,647	0	111,520	403,241	0	118,681	895,944	3,718,842	0	0	0	0	34,770	0	11,564,644

For Each Fund Type:
Do Assets=Liability+Fund Equity

SINGLE AUDIT SECTION



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

**To the Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Otero School District Number R-1 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise East Otero School District Number R-1's basic financial statements, and have issued our report thereon dated November 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Otero School District Number R-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 East Otero School District Number R-1's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Otero School District Number R-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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon, Wallen & Co., Inc.

November 30, 2018

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

To the Board of Education
East Otero School District Number R-1
La Junta, Colorado 81050

Report on Compliance for Each Major Federal Program

We have audited East Otero School District Number R-1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of East Otero School District Number R-1's major federal programs for the year ended June 30, 2018. East Otero School District Number R-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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of East Otero School District Number R-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 East Otero School District Number R-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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of East Otero School District Number R-1's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Otero School District Number R-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 deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Dina Waller & Co., Inc.

November 30, 2018

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Report

An unmodified report has been issued on the financial statements of East Otero School District Number R-1

Internal Control – Financial Statements

No conditions were disclosed by the audit that are considered to be a material weakness.
No significant deficiencies not considered a material weakness were identified.

Noncompliance – Financial Statements

No instances of noncompliance in amounts material to the financial statements of East Otero School District Number R-1 were disclosed by the audit.

Internal Control – Federal Awards

No conditions were disclosed by the audit that are considered to be a material weakness.
No significant deficiencies not considered a material weakness were identified.

Report on Compliance – Major Programs

An unmodified report has been issued on East Otero School District Number R-1 Compliance for Major Programs.

Audit Findings

Audit findings requiring disclosure in accordance with 2 CFR Section 200.516(a) were not disclosed by the audit.

Major Programs

Title I	84.010
School Breakfast Program	10.553
National School Lunch Program	10.555
National School Lunch Program – Commodities	10.555
Summer Food Service Program for Children	10.559

Dollar Threshold to Distinguish Type A and Type B Programs

\$750,000.

Qualification as Low-Risk Auditee

The District qualified as a low-risk auditee for Fiscal Year 2017/2018.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018

FINDINGS – FEDERAL AWARDS

None

EAST OTERO SCHOOL DISTRICT NUMBER R-1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<u>Federal Grantor/Program</u> <u>Federal Grantor/Program or Cluster Title</u>	<u>CFDA</u> <u>Number</u>	<u>Pass -</u> <u>Through</u> <u>Grantor</u>	<u>State</u> <u>Code</u> <u>Number</u>	<u>Expenditures</u>
<u>CHILD NUTRITION CLUSTER-CLUSTER</u>				
<u>U.S. Department of Agriculture</u>				
<u>School Breakfast Program</u>				
School Breakfast Program	10.553	CDE	4553	<u>276,790</u>
<u>Total School Breakfast Program</u>				<u>276,790</u>
<u>National School Lunch Program</u>				
National School Lunch Program	10.555	CDHHS	4555	51,403
National School Lunch Program	10.555	CDE	4555	<u>492,550</u>
<u>Total National School Lunch Program</u>				<u>543,953</u>
<u>Summer Food Service Program for Children</u>				
Summer Food Service Program for Children	10.559	CDE	4559	<u>26,407</u>
<u>Total Summer Food Service Program for Children</u>				<u>26,407</u>
<u>Total U.S. Department of Agriculture Cluster</u>				<u>847,150</u>
<u>TOTAL CHILD NUTRITION CLUSTER-CLUSTER</u>				<u>847,150</u>
<u>OTHER PROGRAMS</u>				
<u>Department of Energy</u>				
<u>Early Childhood Readiness Assessment</u>				
Early Childhood Readiness Assessment	84.412	CDE	5412	<u>1,144</u>
<u>Total Early Childhood Readiness Assessment</u>				<u>1,144</u>
<u>Total Department of Energy</u>				<u>1,144</u>
<u>Department of Education</u>				
<u>Title 1 Grants to Local Educational Agencies</u>				
Title I Grants to Local Educational Agencies	84.010	CDE	4010	<u>771,594</u>
<u>Total Title 1 Grants to Local Educational Agencies</u>				<u>771,594</u>
<u>Rural Education</u>				
Rural Education	84.358	CDE	7358	<u>63</u>
<u>Total Rural Education</u>				<u>63</u>
<u>Improving Teacher Quality State Grants</u>				
Improving Teacher Quality State Grants	84.367	CDE	4367	<u>67,442</u>
<u>Total Improving Teacher Quality State Grants</u>				<u>67,442</u>
<u>Total Department of Education</u>				<u>839,099</u>
<u>U.S. Department of Agriculture</u>				
<u>Fresh Fruit and Vegetable Program</u>				
Fresh Fruit and Vegetable Program	10.582	CDE	4582	<u>40,562</u>
<u>Total Fresh Fruit and Vegetable Program</u>				<u>40,562</u>
<u>Total U.S. Department of Agriculture</u>				<u>40,562</u>
<u>TOTAL OTHER PROGRAMS</u>				<u>880,805</u>
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>				<u>1,727,955</u>

The accompanying notes are an integral part of this schedule.

EAST OTERO SCHOOL DISTRICT NUMBER R-1
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

NOTE 1 **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the East Otero School District Number R-1 and is presented on the modified accrual basis of accounting. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2 **INDIRECT COST RATES**

All grants have been received from the Colorado Department of Education. The Department calculates an allowable indirect cost rate for individual sub-recipients and mandates that the rate be used as the maximum for the recovery of indirect cost. The District has recovered indirect cost from grant funds at an amount no greater than that allowed by the Colorado Department of Education and has not elected to use the 10% de minimis indirect cost rate allowed by Uniform Guidance.

NOTE 3 **FOOD DISTRIBUTION**

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

NOTE 4 **SUBRECIPIENTS**

No payments were made to subrecipients in the fiscal year ended June 30, 2018.