

cPa DIXON, WALLER & CO., INC.

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EAST ÓTERO

SCHOOL DISTRICT NUMBER R-1

LA JUNTA, COLORADO

FINANCIAL STATEMENTS

JUNE 30, 2017

**DIXON, WALLER & CO., INC.**

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FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**EAST OTERO SCHOOL DISTRICT NUMBER R-1  
ROSTER OF SCHOOL OFFICIALS  
June 30, 2017**

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**BOARD OF EDUCATION**

<b>Jeff Reeder</b>	<b>President</b>
<b>Jeff Paolucci</b>	<b>Vice-President</b>
<b>Angela Ayala</b>	<b>Secretary</b>
<b>Dee Leyba</b>	<b>Treasurer</b>
<b>Toni Martinez</b>	<b>Member</b>

**SCHOOL OFFICIALS**

<b>Rick Lovato</b>	<b>Superintendent</b>
<b>Merinda Reisch</b>	<b>Business Manager</b>

## **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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2017, 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 information and pension trend data on pages i through xiii and 40 through 44 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, 2017, 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.

*Duan, Waller & Co., P.C.*

November 30, 2017



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



EAST OTERO SCHOOL DISTRICT R-1  
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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, 2017. 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 \$10,392,632. Unrestricted net position of the district is a negative \$19,829,362.
- The District's financial status increased over the course of the 2017 fiscal year. Total net position increased 14.3 percent.
- General revenues, primarily property taxes and state equalization payments, account for approximately \$11.0 million or 75 percent of all revenues. Program specific revenues for services, grants, and contributions accounted for \$3.6 million or 25 percent of \$14.6 million in total revenues.
- The District had \$19.7 million in expenses related to governmental activities; only \$3.1 million of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$11.0 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.

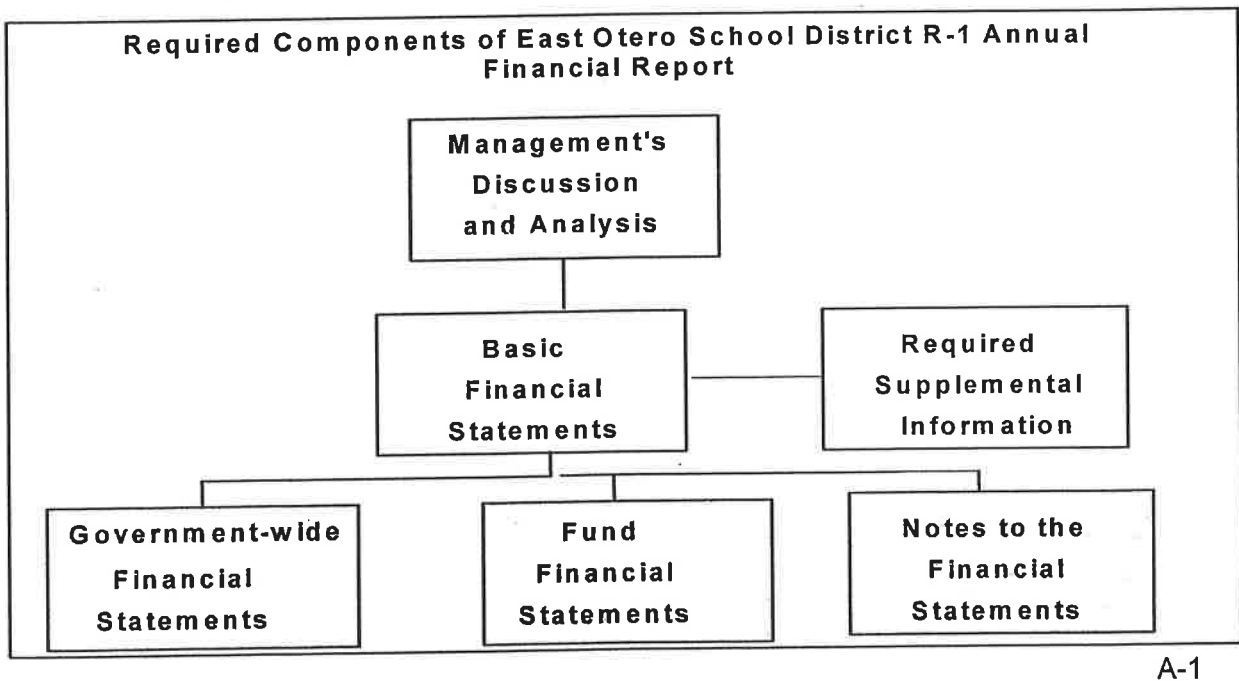


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents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

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## 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 2016-2017. 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 five 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) Bond Redemption Fund (3) Special Revenue Funds (a) Governmental Designated (b) Capital Reserve Fund (4) Capital Projects Building Fund. 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 12-39 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 40-52 for the General, Capital Projects, Bond Redemption, Special Revenue and Agency Funds to demonstrate compliance.

## 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, 2017.

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

	Governmental Activities		Total	
	2015-2016	2016-2017	2015-2016	2016-2017
Current & other assets	\$ 9,998,656	\$ 23,269,196	\$ 9,998,656	\$ 23,269,196
Capital assets	\$ 10,316,748	\$ 9,723,226	\$ 10,316,748	\$ 9,723,226
Total assets	\$ 20,315,404	\$ 32,992,422	\$ 20,315,404	\$ 32,992,422
Current & other liabilities	\$ 2,600,323	\$ 1,930,567	\$ 2,600,323	\$ 1,930,567
Long-term debt outstanding	\$ 22,968,256	\$ 41,454,487	\$ 22,968,256	\$ 41,454,487
Total liabilities	\$ 25,568,579	\$ 43,385,054	\$ 25,568,579	\$ 43,385,054
Net position				
Invested in capital assets	\$ 6,672,717	\$ 6,311,095	\$ 6,672,717	\$ 6,311,095
Restricted	\$ 2,664,742	\$ 3,125,635	\$ 2,664,742	\$ 3,125,635
Unrestricted	\$(14,590,634)	\$(19,829,362)	\$(14,590,634)	\$(19,829,362)
Total net position	\$ (5,253,175)	\$ (10,392,632)	\$ (5,253,175)	\$ (10,392,632)

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.

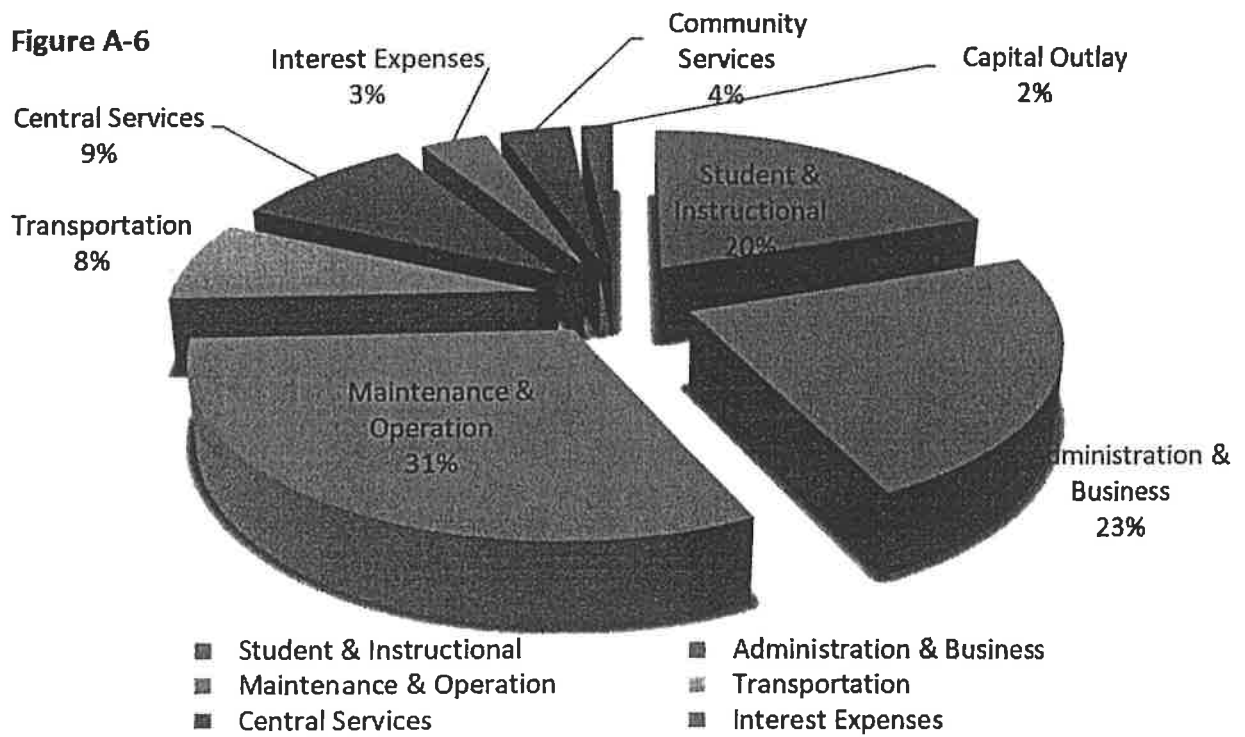
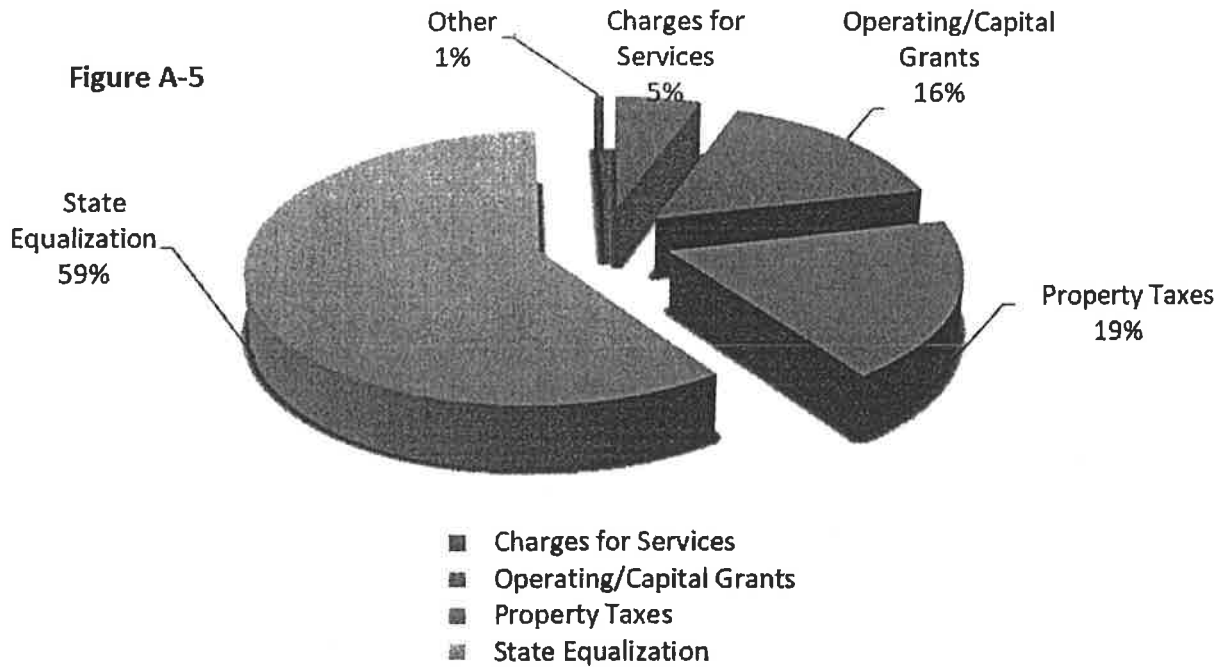
The District's revenues totaled \$14,577,113. (See Table A-4) Approximately 20 percent of the District's revenue came from property and other taxes, with 59 percent coming from state funding. (See Figure A-5)

The total cost of all programs and services was \$19,716,570. The District's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A6)

**East Otero School District R-1**  
**Condensed Statement of Changes in Net Position as of June 30, 2017**

	Governmental Activities		Total	
	2015-2016	2016-2017	2015-2016	2016-2017
<b>Revenues</b>				
Charges for Services	\$710,529	\$798,495	\$710,529	\$798,495
Operating/Capital Grants	2,932,883	2,297,924	2,932,883	2,297,924
<b>General Revenues</b>				
Property & Other Taxes	2,703,271	2,773,575	2,703,271	2,773,575
State Equalization	8,273,796	8,614,261	8,273,796	8,614,261
Other	76,650	92,858	76,650	92,858
<b>Total Revenues</b>	<b>\$14,697,129</b>	<b>\$14,577,113</b>	<b>\$14,697,129</b>	<b>\$14,577,113</b>
<b>Expenses</b>				
Instruction	7,723,599	7,785,589	7,723,599	7,785,589
Student & Instructional	923,939	1,005,283	923,939	1,005,283
Administration & Business	1,242,917	1,184,316	1,242,917	1,184,316
Maintenance & Operation	1,451,096	1,607,176	1,451,096	1,607,176
Transportation	373,465	388,608	373,465	388,608
Central Support	525,652	475,225	525,652	475,225
Interest Expenses	187,791	175,170	187,791	175,170
Community Services	169,009	185,747	169,009	185,747
Pension Amortization	418,352	5,740,400	418,352	5,740,400
Capital Outlay	59,978	84,198	59,978	84,198
Food Services	1,110,706	1,084,858	1,110,706	1,084,858
<b>Total Expenses</b>	<b>14,186,504</b>	<b>19,716,570</b>	<b>14,186,504</b>	<b>19,716,570</b>
Inc (Dec) Net Position	\$510,625	(\$5,139,457)	\$510,625	(\$5,139,457)
Beg. Net Position – Restated	(\$5,609,690)	(\$5,253,175)	(\$5,609,690)	(\$5,253,175)
Prior Year Adjustment	(\$154,110)	0	(\$154,110)	0
<b>Ending Net Position</b>	<b>(\$5,253,175)</b>	<b>(\$10,392,632)</b>	<b>(\$5,253,175)</b>	<b>(\$10,392,632)</b>

A-4





## 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 \$7,769 per funded student. In fiscal year 2016-2017, the funded pupil count was 1358.8. Funding for the School Finance Act comes from property taxes, specific ownership taxes and state equalization. The District received approximately 59 percent of its funding from state equalization and 20 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	\$ 7,785,589	\$6,387,038
Student Support	738,337	349,856
Instruction Staff	266,946	81,791
Administration & Business	1,184,316	1,184,316
Maintenance & Operation	1,607,176	1,600,174
Transportation	388,608	346,106
Central Support	475,225	450,540
Community Services	185,747	185,747
Capital Outlay	84,198	84,198
Int Exp/Pension Amort	5,915,570	5,915,570
Food Services	1,084,858	34,815
Total	<u>\$19,716,570</u>	<u>\$16,620,151</u>

The cost of all governmental activities this year was \$19.7 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 \$10,996,786. The actual expenditures of \$10,410,359 were below budget primarily due to \$3.0 million budgeted from fund balance for unplanned expenditures (contingency reserve). The \$4,520,671 fund balance as of June 30, 2017 includes \$353,175 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 November of 2008, a bond issue of \$4,300,000.00 was passed to build a new athletic stadium. This bond issue will be repaid by extending the current bond levy. District voters approved a refunding of the Districts 1995 and 1996 series general obligation bonds for \$3,694,995.95. As previously noted in the financial highlights the refunding resulted in saving taxpayers approximately \$237,000 between 2003 and 2015 without increasing the repayment term. Revenues received from the mill levy were \$478,561 more than the expenditures leaving a fund balance of \$2,595,271 in this fund. This fund balance will enable the District to meet the payment requirements.

#### **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 \$1,136,615 in federal revenue sources, and state revenues of \$72,850.

The majority of the state grants have expenditures that exceed the revenue received from the state so transfers of \$1,236,407 were made from the General Fund to provide funding equivalent to the expenditures.

Special Revenue Fund expenditures are shown below in Table A-4 as dollars and the related percent based on program.

Table A-4  
**East Otero School District R-1**  
**Expenditures of Grant Special Revenue Fund**

	Actual Expenditures	Percent of Total Expenditures
Instruction	\$ 1,878,587	75.8%
Student Support	\$ 388,481	15.7%
Instructional Support	\$ 185,155	7.5%
Business Support	-	0.0%
Other Support Services	\$ 24,685	1.0%
Total	<u>\$ 2,476,908</u>	<u>100.0%</u>

**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. The projects are ongoing and will be completed during the 2016-2017 school year. The Capital Reserve Fund has an ending fund balance of \$35,340.

**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 \$179,175, the Capital Projects Building Fund has an ending fund balance of \$333,141 and the Food Service Fund has an ending fund balance of \$40,143.

**BUDGETARY HIGHLIGHTS**

The final fiscal year 2016-2017 budget adopted by the Board of Education for the District as a whole totaled appropriation of \$14.2 million. The following budget appropriations are without the reserve: General Fund appropriations of \$9.1 million, Capital Reserve & Project Funds appropriation of \$.3 million, Bond Redemption Fund appropriations of \$.7 million, Special Revenue Funds appropriations of \$2.3 million, Food Service Fund appropriations of \$1.0 million, and other governmental fund appropriations of \$.8 million. There were no significant budget changes or budget variances for the year.

## **CAPITAL ASSET ADMINISTRATION**

By the end of 2017, the District had invested \$28.7 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 \$99,175. 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 & Improvements	\$	931,739
Buildings & Site Improvements		24,201,617
Vehicles & Equipment		3,628,062
Total Funds Capital Assets	\$	<u>28,761,418</u>

## **LONG-TERM DEBT**

District voters approved a general obligation bond of \$5,915,000 in 1995. Voters approved a general obligation bond of \$70,000 in 1996. In 2003 district voters approved a partial refunding of the District's 1995 and 1996 series general obligation bonds for \$3,694,995.95. In November of 2008 the voters passed a new bond issue for \$4.3 million. The voters authorized the continuance of the current mill levy until the bond issues are paid. The mill levy will provide property tax revenue sufficient to pay principal and interest as required by the bond amortization schedules. The District entered into a capital lease with an option to purchase agreement for \$165,000 in June of 2014 to relocate the central office to 301 Raton Ave. At the end of the 2016-2017 fiscal year, the District had total general obligation debt outstanding of \$3,355,000 including \$210,000 due within the next 12 months. Detailed information on debt administration can be found in Note 7 in the Notes to the Basic Financial Statements.

The District is liable for the discretionary and vacation accrued compensated absences as per policy. The liability for June 30, 2017 is \$27,629.

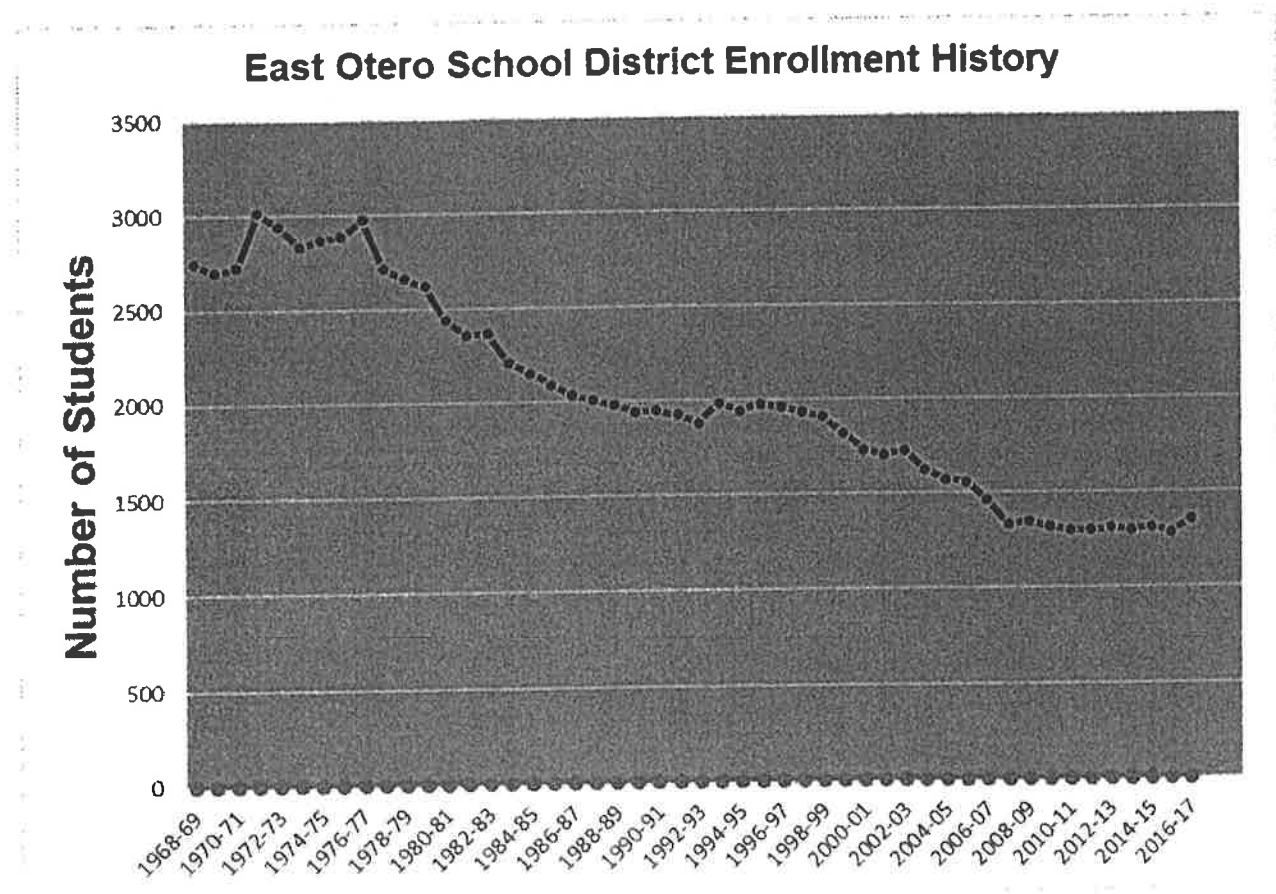
## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

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 2016-2017 student enrollment "October count" shows that East Otero School District R-1 has approximately 135 less 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 11/12 FY	Actual 12/13 FY	Actual 13/14 FY	Actual 14/15 FY	Actual 15/16 FY	Actual 16/17 FY
At Risk Grades 1-12	811.9	881.8	885.4	907.5	907.9	915.7
Total Oct. 1 Certified Pupil Count	1253	1265	1254.5	1270	1240	1304.5
Total Funded Pupil Count	1330.5	1320	1314.7	1322.5	1311.5	1358.8

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.



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 12<sup>th</sup> 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, 2017**

	<u>Governmental</u> <u>Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and Investments	7,928,411	7,928,411
Property Taxes Receivable	188,508	188,508
Accounts Receivable	108,614	108,614
Accrued Revenue	236,024	236,024
<u>Total Current Assets</u>	<u>8,461,557</u>	<u>8,461,557</u>
<b><u>Capital Assets:</u></b>		
Land	257,210	257,210
Depreciable Assets	28,504,208	28,504,208
Accumulated Depreciation	(19,038,192)	(19,038,192)
<u>Capital Assets Net of Depreciation</u>	<u>9,723,226</u>	<u>9,723,226</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>18,184,783</u></b>	<b><u>18,184,783</u></b>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>		
Deferred Pension Cost - Plan	14,157,579	14,157,579
Deferred Pension Cost - Entity	100,825	100,825
Deferred Pension Cost - Contributions Subsequent to Pension Measurement Date	549,235	549,235
<u>Total Deferred Outflow of Resources</u>	<u>14,807,639</u>	<u>14,807,639</u>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	177,652	177,652
Accrued Salaries Payable	514,788	514,788
Accrued Interest	7,315	7,315
Unearned Grant Payments	21,377	21,377
Capital Lease Payable – Current	27,996	27,996
General Obligation Bonds – Current	210,000	210,000
Bond Premium – Current	5,387	5,387
<u>Total Current Liabilities</u>	<u>964,515</u>	<u>964,515</u>
<b><u>Noncurrent Liabilities:</u></b>		
Capital Lease Payable	29,135	29,135
General Obligation Bonds	3,145,000	3,145,000
Bond Premium	32,235	32,235
Net Pension Liability	38,220,488	38,220,488
Compensated Absences	27,629	27,629
<u>Total Noncurrent Liabilities</u>	<u>41,454,487</u>	<u>41,454,487</u>
<b><u>TOTAL LIABILITIES</u></b>	<b><u>42,419,002</u></b>	<b><u>42,419,002</u></b>
<b><u>DEFERRED INFLOW OF RESOURCES</u></b>		
Deferred Pension Cost – Plan	172,691	172,691
Deferred Pension Cost - Entity	793,361	793,361
<u>Total Deferred Outflow of Resources</u>	<u>966,052</u>	<u>966,052</u>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	6,311,095	6,311,095
Restricted for:		
Capital Outlay	35,340	35,340
Debt Service	2,595,271	2,595,271
TABOR	353,175	353,175
Preschool	101,706	101,706
Food Services	40,143	40,143
Unrestricted	(19,829,362)	(19,829,362)
<b><u>TOTAL NET POSITION</u></b>	<b><u>(10,392,632)</u></b>	<b><u>(10,392,632)</u></b>

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, 2017**

		<u>Net (Expenses) Revenue and Changes in Net Position</u>			
		<u>Primary Government</u>		<u>Primary Government</u>	
		<u>Charges for Services</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>	<u>Total</u>
			<u>Operating Grants &amp; Contributions</u>		
			<u>Capital Grants and Contributions</u>		
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>				
<u>Primary Government:</u>					
<u>Governmental Activities</u>					
Instruction	7,785,589	666,322	732,229	(6,387,038)	(6,387,038)
Student Support	738,337	-	388,481	(349,856)	(349,856)
Instructional Staff	266,946	-	185,155	(81,791)	(81,791)
General Administration	325,004	-	-	(325,004)	(325,004)
School Administration	738,813	-	-	(738,813)	(738,813)
Business Support	120,499	-	-	(120,499)	(120,499)
Operation & Maintenance	1,607,176	7,002	-	(1,600,174)	(1,600,174)
Student Transportation	388,608	-	42,502	(346,106)	(346,106)
Central Support	475,225	-	24,685	(450,540)	(450,540)
Food Services	1,084,858	125,171	924,872	(34,815)	(34,815)
Community Services	185,747	-	-	(185,747)	(185,747)
Capital Outlay	84,198	-	-	(84,198)	(84,198)
Interest Expense	175,170	-	-	(175,170)	(175,170)
Pension Expense	5,740,400	-	-	(5,740,400)	(5,740,400)
<u>Total Governmental Activities</u>	<u>19,716,570</u>	<u>798,495</u>	<u>2,297,924</u>	<u>(16,620,151)</u>	<u>(16,620,151)</u>
<u>Total Primary Government</u>	<u>19,716,570</u>	<u>798,495</u>	<u>2,297,924</u>	<u>(16,620,151)</u>	<u>(16,620,151)</u>
<u>General Revenues</u>					
Local Property Taxes				2,319,127	2,319,127
Specific Ownership Taxes				454,448	454,448
School Finance Act				8,614,261	8,614,261
Earnings on Investments				25,556	25,556
Other				67,302	67,302
<u>Total General Revenues</u>				<u>11,480,694</u>	<u>11,480,694</u>
<u>Change in Net Position</u>				<u>(5,139,457)</u>	<u>(5,139,457)</u>
<u>Net Position, Beginning</u>				<u>(5,253,175)</u>	<u>(5,253,175)</u>
<u>Net Position, Ending</u>				<u>(10,392,632)</u>	<u>(10,392,632)</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, 2017**

	<u>General</u>	<u>Grants Special Revenue Fund</u>
<b><u>ASSETS</u></b>		
Cash and Investments	4,734,111	-
Property Taxes Receivable	130,978	-
Accounts Receivable	-	-
Accrued Revenue	-	236,024
Accrued Interest Receivable	-	-
Due From Other Funds	197,377	-
<u>Total Assets</u>	<u>5,062,466</u>	<u>236,024</u>
<b><u>LIABILITIES:</u></b>		
Accounts Payable	158,562	-
Accrued Salaries Payable	350,108	164,680
Due To Other Funds	-	49,967
Unearned Grant Payments	-	21,377
<u>Total Liabilities</u>	<u>508,670</u>	<u>236,024</u>
<b><u>DEFERRED INFLOW OF RESOURCES</u></b>		
Deferred Property Tax	<u>33,125</u>	<u>-</u>
<b><u>FUND BALANCES:</u></b>		
Restricted for:		
TABOR (Emergencies)	353,175	-
Capital Outlay	-	-
Preschool	101,706	-
Debt Service	-	-
Food Service	-	-
Committed for:		
Risk Management	-	-
Capital Outlay	-	-
Assigned for:		
Pupil Activities	-	-
Unassigned	4,065,790	-
<u>Total Fund Balances</u>	<u>4,520,671</u>	<u>-</u>
<b><u>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u></b>	<b><u>5,062,466</u></b>	<b><u>236,024</u></b>

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

<b>Bond Redemption Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
2,548,615	645,685	7,928,411
57,530	-	188,508
-	108,614	108,614
-	-	236,024
-	-	-
-	-	197,377
<u>2,606,145</u>	<u>754,299</u>	<u>8,658,934</u>
-	19,090	177,652
-	-	514,788
-	147,410	197,377
-	-	21,377
<u>-</u>	<u>166,500</u>	<u>911,194</u>
<u>10,874</u>	<u>-</u>	<u>43,999</u>
-	-	353,175
-	35,340	35,340
-	-	101,706
2,595,271	-	2,595,271
-	40,143	40,143
-	-	-
-	333,141	333,141
-	179,175	179,175
-	-	4,065,790
<u>2,595,271</u>	<u>587,799</u>	<u>7,703,741</u>
<u>2,606,145</u>	<u>754,299</u>	<u>8,658,934</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, 2017**

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

<b><u>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</u></b>	<b>7,703,741</b>
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$28,761,418 and the accumulated depreciation is \$19,038,192.	9,723,226
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.	43,999
Accrued interest payable is not considered current financial resources and, therefore, not reported in the governmental funds.	(7,315)
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.	
Bonds Payable	(3,355,000)
Capital Lease Payable	(57,131)
Compensated Absences	(27,629)
Bond Premium	<u>(37,622)</u>
	(3,477,382)
Net pension liability, along with associated deferred flow, are not recorded at the fund level:	
Net Pension Liability	(38,220,488)
Deferred Pension Cost – Plan	13,984,888
Deferred Pension Cost – Contributions Subsequent to Pension Measurement Date	549,235
Deferred Pension Cost – Entity	<u>(692,536)</u>
<b><u>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</u></b>	<b><u>(10,392,632)</u></b>

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, 2017**

	<u>General</u>	<u>Grants Special Revenue Fund</u>	<u>Bond Redemption Debt Service</u>
<b><u>REVENUES:</u></b>			
Taxes	1,926,871	-	853,167
Intergovernmental	8,747,639	1,209,465	-
Interest	15,734	-	8,263
Other	306,542	31,036	-
<u>Total Revenues</u>	<u>10,996,786</u>	<u>1,240,501</u>	<u>861,430</u>
<b><u>EXPENDITURES</u></b>			
Current:			
Instruction	4,947,804	1,878,587	-
Student Support	330,460	388,481	-
Instructional Staff	81,791	185,155	-
General Administration	322,233	-	-
School Administration	738,813	-	-
Business Services	120,499	-	-
Operations & Maintenance	1,556,609	-	-
Student Transportation	306,870	-	-
Central Support	443,155	24,685	-
Food Services	-	-	-
Community Services	185,747	-	-
Other	-	-	-
Capital Outlay	-	-	-
Debt Service	-	-	382,869
<u>Total Expenditures</u>	<u>9,033,981</u>	<u>2,476,908</u>	<u>382,869</u>
<b><u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	<u>1,962,805</u>	<u>(1,236,407)</u>	<u>478,561</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers In (Out)	(1,376,378)	1,236,407	-
<u>Total Other Financing Sources (Uses)</u>	<u>(1,376,378)</u>	<u>1,236,407</u>	<u>-</u>
<b><u>NET CHANGES IN FUND BALANCES</u></b>	<u>586,427</u>	<u>-</u>	<u>478,561</u>
<b><u>FUND BALANCES, Beginning</u></b>	<u>3,934,244</u>	<u>-</u>	<u>2,116,710</u>
<b><u>FUND BALANCES, Ending</u></b>	<u>4,520,671</u>	<u>-</u>	<u>2,595,271</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
-	2,780,038
924,872	10,881,976
1,559	25,556
<u>558,428</u>	<u>896,006</u>
<u>1,484,859</u>	<u>14,583,576</u>
428,635	7,255,026
-	718,941
-	266,946
-	322,233
-	738,813
-	120,499
-	1,556,609
-	306,870
7,385	475,225
1,076,546	1,076,546
-	185,747
-	-
183,373	183,373
<u>30,324</u>	<u>413,193</u>
<u>1,726,263</u>	<u>13,620,021</u>
<u>(241,404)</u>	<u>963,555</u>
<u>139,971</u>	-
<u>139,971</u>	-
(101,433)	963,555
<u>689,232</u>	<u>6,740,186</u>
<u>587,799</u>	<u>7,703,741</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, 2017**

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

<b><u>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</u></b>	<b>963,555</b>
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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	99,175	
Depreciation Expense	<u>(692,697)</u>	(593,522)

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. (6,463)

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:

Repayment of Debt Principal	231,900	
Interest Expense	446	
Amortization Expense	<u>5,677</u>	238,023

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. (650)

The increase in net pension liability, along with the changes and amortizations of deferred flows associated with the net pension liability are not recorded at the fund level.

Change in net pension liability and related deferred flows		(5,740,400)
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<b><u>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</u></b>	<b><u>(5,139,457)</u></b>
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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, 2017**

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	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash	39,324
Accounts Receivable	<u>352</u>
<b><u>Total Assets</u></b>	<b><u>39,676</u></b>
 <b><u>LIABILITIES</u></b>	
Deposits Held for Others	<u>39,676</u>
<b><u>Total Liabilities</u></b>	<b><u>39,676</u></b>
 <b><u>NET POSITION</u></b>	 <u><u>—</u></u>



## **NOTES TO BASIC FINANCIAL STATEMENTS**

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**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 1,305 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, 2017**

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**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, 2017**

**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, 2017**

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

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**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, No Child Left Behind programs which must be expended as designated by the grantor agency.

- **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, 2017**

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**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 2016 but not yet available in 2017 are identified as property taxes receivable and deferred inflows at June 30, 2017, 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, 2017

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**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, 2017, the District reserved \$353,175 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, 2017**

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**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 2016 property tax calendar for Otero County was as follows:

Levy Date	December 22, 2016
Lien Date	January 1, 2017
Tax Bills Mailed	January 1, 2017
First Installment Due	February 28, 2017
Second Installment Due	June 15, 2017
If Paid in Full, Due	April 30, 2017

**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, 2017, accumulated unused vacation amounted to \$3,816. 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, 2017, the accumulated discretionary leave liability amounted to \$23,813.

A summary of changes in compensated absences is as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Vacation	2,454	1,362	-	3,816
Discretionary Leave	<u>24,525</u>	<u>-</u>	<u>712</u>	<u>23,813</u>
<u>Total</u>	<u>26,979</u>	<u>1,362</u>	<u>712</u>	<u>27,629</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, 2017**

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**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, 2017**

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

**N.     GASB Statement No. 54 (Continued)**

**Fund Balance Classification by Fund:**

	<u>Special Revenue Funds</u>				<u>Capital Projects Funds</u>		<u>Total Governmental Funds</u>	
	<u>General Fund</u>	<u>Grants Fund</u>	<u>Pupil Activity Fund</u>	<u>Food Services Fund</u>	<u>Debt Service Fund</u>	<u>Building Fund</u>		<u>Capital Reserve</u>
<u>Restricted:</u>								
Emergencies	353,175	-	-	-	-	-	-	353,175
Capital Outlay	-	-	-	-	-	35,340	-	35,340
Preschool	101,706	-	-	-	-	-	-	101,706
Debt Service	-	-	-	-	2,595,271	-	-	2,595,271
Food Service	-	-	-	40,143	-	-	-	40,143
<u>Committed:</u>								
<u>Risk</u>								
Management	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	333,141	333,141
<u>Assigned</u>								
Pupil Activities	-	-	179,175	-	-	-	-	179,175
<u>Unassigned</u>	<u>4,065,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,065,790</u>
<u>Total Fund</u>								
Balances	4,520,671	-	179,175	40,143	2,595,271	35,340	333,141	7,703,741

**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, 2017**

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**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 government 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	\$1,376,378
Governmental Funds – Interfund Receivables / Payables	\$197,377

**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, 2017

**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, 2017, the District's bank balance and corresponding carrying balance were as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>	<u>Bank &amp; Carrying Balance Certificates of Deposit</u>
Insured (FDIC)	250,000	250,000	250,000
Uninsured, Collateralized under the Public Deposit Protection Act of the State of Colorado	4,936,997	5,207,785	1,791,202
Cash Equivalents	266,564	266,564	
Cash with County Treasurer	40,975	-	-
Cash on Hand	710	-	-
<u>Total Cash and Deposits</u>	<u>5,495,246</u>	<u>5,724,349</u>	<u>2,041,202</u>

Deposits with a bank balance of \$6,998,987 and a carrying balance of \$6,728,199 as of June 30, 2017 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

**RECAP**

Cash	5,495,246
Certificates of Deposit	<u>2,041,202</u>
	<u>7,536,448</u>

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**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, 2017, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Investment - Fair Value</u>
COLOTRUST	41 Day Average	<u>431,287</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 in COLOTRUST was rated AAA by Standard & Poor.

**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 the following recurring fair value measurements as of June 30, 2017:

- COLOTRUST Investment Pool of \$431,287 is valued using quoted market prices (Level 1 inputs)

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 5**      **CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Balance June 30, 2017</u>
<b><u>Non-Depreciable Assets:</u></b>					
Land	257,210	-	-	-	257,210
Construction in Progress	-	-	-	-	-
<b><u>Total Non-Depreciable Assets</u></b>	<b><u>257,210</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>257,210</u></b>
<b><u>Depreciable Assets:</u></b>					
Land Improvements	674,529	-	-	-	674,529
Buildings & Improvements	24,176,230	25,387	-	-	24,201,617
Equipment & Vehicles	3,554,274	73,788	-	-	3,628,062
<b><u>Total Depreciable Assets</u></b>	<b><u>28,405,033</u></b>	<b><u>99,175</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>28,504,208</u></b>
<b><u>Less Accumulated Depreciation for:</u></b>					
Land Improvements	345,144	53,253	-	-	398,397
Buildings & Improvements	14,771,906	548,653	-	-	15,320,559
Equipment & Vehicles	3,228,445	90,791	-	-	3,319,236
<b><u>Total Accumulated Depreciation</u></b>	<b><u>18,345,495</u></b>	<b><u>692,697</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>19,038,192</u></b>
<b><u>Total Capital Assets, Net</u></b>	<b><u>10,316,748</u></b>	<b><u>(593,522)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,723,226</u></b>

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

<b><u>Governmental Activities:</u></b>	
Instruction	529,913
Pupil Services	19,396
General Administration	2,771
Operations and Maintenance	50,567
Transportation	81,738
Food Service	8,312
<b><u>Total Depreciation Expense –Governmental Activities</u></b>	<b><u>692,697</u></b>

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

**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	197,377	-	-	1,376,378
Student Activity	-	-	33,000	-
Grants	-	49,967	1,236,407	-
Food Service	-	49,381	-	-
Capital Reserve-Capital Projects	-	98,029	106,971	-
<u>Total</u>	<u>197,377</u>	<u>197,377</u>	<u>1,376,378</u>	<u>1,376,378</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.

<u>General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Interest Payable</u>	<u>Principal Payable</u>
G.O. Refunding Payable Series, 2008 with interest ranging from 3.50% to 5.50%, original amount of issue \$4,300,000.			
	2018	168,288	210,000
	2019	158,613	220,000
	2020	147,912	230,000
	2021	136,038	245,000
	2022	123,537	255,000
	2023-2027	401,407	1,485,000
	2028-2029	39,599	710,000
		<u>1,175,394</u>	<u>3,355,000</u>
<u>Total G.O. Bonds</u>			<u>3,355,000</u>

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**B. Changes in General Obligation Bonds**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>One Year</u>
Series 2009 G.O. Refunding Bonds	<u>3,560,000</u>	<u>-</u>	<u>205,000</u>	<u>3,355,000</u>	<u>210,000</u>
Total Bonds Payable	<u>3,560,000</u>	<u>-</u>	<u>205,000</u>	<u>3,355,000</u>	<u>210,000</u>
Deferred Amounts:					
Bond Premium	<u>43,299</u>	<u>-</u>	<u>5,677</u>	<u>37,622</u>	<u>5,387</u>
Total	<u>3,603,299</u>	<u>-</u>	<u>210,677</u>	<u>3,392,622</u>	<u>215,387</u>

**NOTE 8**      **CAPITAL LEASES PAYABLE**

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

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
General Governmental:					
Building	<u>84,031</u>	<u>-</u>	<u>26,900</u>	<u>57,131</u>	<u>27,996</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, 2017 was \$57,131. Annual debt service requirements to maturity for the capital lease are as follows:

	<u>Fiscal Year</u>	<u>Annual Payment</u>	<u>Principal</u>	<u>Interest</u>
	2018	<u>30,323</u>	<u>27,996</u>	<u>2,327</u>
	2019	<u>30,324</u>	<u>29,135</u>	<u>1,189</u>
Total Minimum Payments		<u>60,647</u>	<u>57,131</u>	<u>3,516</u>
Less Amount Representing Interest		<u>(3,516)</u>		
Net Present Value of Future Minimum Payments		<u>57,131</u>		



**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**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.

**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](http://www.copera.org/investment/pera-financial-reports).

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

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

- 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.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 9**      **PENSION PLAN (Continued)**

- \$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.

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

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

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

**Contributions.** Eligible employees and 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.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 9**      **PENSION PLAN (Continued)**

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
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	4.50%	5.00%
Total Employer Contribution Rate to the SCHDTF	18.13%	18.63%

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 \$1,069,003 for the year ended June 30, 2017.

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

At June 30, 2017, the East Otero School District Number R-1 reported a liability of \$38,220,488 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The 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 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the East Otero School District Number R-1 proportion was 0.1284 percent, which was an increase of 0.0010 from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the East Otero School District Number R-1 recognized pension expense of \$5,740,400. At June 30, 2017, 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:

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 9**      **PENSION PLAN (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	477,815	(336)
Changes of assumptions or other inputs	12,401,751	(172,355)
Net difference between projected and actual earnings on pension plan investments	1,278,013	0
Changes in proportion and differences between contributions recognized and proportionate share of contributions	100,825	(793,361)
Contributions subsequent to the measurement date	549,235	N/A
<b>Total</b>	<b>14,807,639</b>	<b>(966,052)</b>

\$549,235 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2017	
2018	5,140,200
2019	5,348,362
2020	2,791,010
2021	12,780
2022	-
Thereafter	-

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

Actuarial Cost Method	Entry Age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage Inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount Rate	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 9**      **PENSION PLAN (Continued)**

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

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

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

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

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

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 9**      **PENSION PLAN (Continued)**

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

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

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

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

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

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

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.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 9**      **PENSION PLAN (Continued)**

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

Asset Class	Target Allocation	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:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 9**

**PENSION PLAN (Continued)**

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on plan investments of 7.50% was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate. The discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.



**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 5.26 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	48,061,035	38,220,488	30,205,718

*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](http://www.copera.org/investments/pera-financial-reports).

**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 for the Plan. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://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, 2017, program members contributed \$15,639.

**Other Post-Employment Benefits**

**Health Care Trust Fund**

*Plan Description* – The East Otero School District Number R-1 contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 9**      **PENSION PLAN (Continued)**

***Funding Policy*** – The East Otero School District Number R-1 is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the East Otero School District Number R-1 are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016 and 2015, the East Otero School District Number R-1 contributions to the HCTF were \$59,321, \$58,101 and \$59,386, respectively equal to their required contributions for each year.

**NOTE 10**      **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.

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 11**    **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, 2017.

An audited summary of the Colorado School District's Pool financial information at December 31, 2016 (latest information available) follows:

Total Assets	<u>48,036,383</u>
Total Liabilities	<u>21,232,630</u>
Total Equity	<u>26,803,753</u>
Revenue	14,232,299
Underwriting Expenses	<u>12,497,566</u>
Underwriting Gain (Loss)	1,734,733
Net Investment Income	690,250
Other Income	<u>-</u>
Net Income (Loss) Before Dividend	2,424,983
Dividend	<u>-</u>
Net Income	2,424,983
Change in Non Admitted Assets	<u>53,761</u>
Return of Capital Contributions to Members	<u>-</u>
Unassigned Surplus	<u>26,803,753</u>

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 12**    **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, 2017, 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 13**    **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, 2017. The joint venture summary audited financial information as of June 30, 2015 is as follows:

Assets	878,269
Deferred Outflows of Resources	575,170
Liabilities	4,875,605
Deferred Inflows of Resources	84,613
Net Position	<u>(3,506,779)</u>
Revenues	2,759,270
Expenditures	<u>2,941,446</u>
Excess (Deficiency)	<u>(182,176)</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, 2017**

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**NOTE 14**    **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, 2017 are estimated to be \$514,788. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the various funds.

**NOTE 15**    **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	\$211,248
Student Activity Special Revenue Fund	\$93,020
Food Services Special Revenue Fund	\$47,946
PTO Fiduciary Fund	\$3,981

Non-appropriated reserve exceeded 15 percent of the amount budgeted to the general fund and may be in violation of Colorado Budget Law.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISONS**

**PENSION 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**

**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, 2017**

	<u>Budgeted Amounts</u>		<u>Variance with</u>
	<u>Original &amp; Final</u>	<u>Actual</u>	<u>Final Budget- Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>			
<b><u>Local Sources</u></b>			
Property Taxes	1,607,332	1,606,420	(912)
Specific Ownership Taxes	313,452	315,513	2,061
Earnings on Investments	10,000	15,734	5,734
Delinquent Taxes and Interest	5,000	4,938	(62)
Tuition/Concurrent Enrollment	200,000	206,654	6,654
Rental	30,000	33,359	3,359
Other	29,000	22,997	(6,003)
Insurance Claims	-	43,532	43,532
<b><u>County Sources</u></b>			
Impact Assistance	200	827	627
<b><u>State Sources</u></b>			
Equalization	8,623,101	8,614,261	(8,840)
Transportation	45,000	42,502	(2,498)
Read Act	10,000	71,154	61,154
Library Grant	-	4,000	4,000
At Risk Funding	-	14,895	14,895
<b><u>Total Revenues</u></b>	<b><u>10,873,085</u></b>	<b><u>10,996,786</u></b>	<b><u>123,701</u></b>
<b><u>EXPENDITURES</u></b>			
<b><u>Instruction</u></b>	<b><u>5,262,791</u></b>	<b><u>4,947,804</u></b>	<b><u>314,987</u></b>
<b><u>Supporting Services:</u></b>			
Students	282,129	330,460	(48,331)
Instructional Staff	150,241	81,791	68,450
General Administration	345,789	322,233	23,556
School Administration	729,035	738,813	(9,778)
Business Services	121,739	120,499	1,240
Operations and Maintenance	1,474,350	1,556,609	(82,259)
Student Transportation	310,011	306,870	3,141
Central Support	485,179	443,155	42,024
Community Services	183,431	185,747	(2,316)
Facilities	-	-	-
<b><u>Total Supporting Services</u></b>	<b><u>4,081,904</u></b>	<b><u>4,086,177</u></b>	<b><u>(4,273)</u></b>
<b><u>Appropriated Reserves</u></b>	<b><u>203,788</u></b>	<b><u>-</u></b>	<b><u>203,788</u></b>
<b><u>Total Expenditures</u></b>	<b><u>9,548,483</u></b>	<b><u>9,033,981</u></b>	<b><u>514,502</u></b>

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, 2017

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	<u>Budgeted Amounts</u> <u>Original &amp; 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>	<u>1,324,602</u>	<u>1,962,805</u>	
<u>Other Financing Sources (Uses)</u>			
<u>Transfers In (Out)</u>	<u>(1,324,601)</u>	<u>(1,376,378)</u>	<u>(51,777)</u>
<u>Total Other Financing Source (Uses)</u>	<u>(1,324,601)</u>	<u>(1,376,378)</u>	<u>(51,777)</u>
<u>Revenues and Other Financing Sources Over</u> <u>(Under) Expenditures and Other Uses</u>	<u>1</u>	<u>586,427</u>	
<u>Non-Appropriated Reserve</u>	<u>(4,002,276)</u>	<u>-</u>	
<u>FUND BALANCE, Beginning</u>	<u>4,002,275</u>	<u>3,934,244</u>	
<u>FUND BALANCE, Ending</u>	<u>-</u>	<u>4,520,671</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, 2017**

	<u>Budget Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES:</u></b>			
Local Sources	25,000	31,036	6,036
State Sources	58,200	72,850	14,650
Federal Sources	<u>1,189,158</u>	<u>1,136,615</u>	<u>(52,543)</u>
<u>Total Revenues</u>	<u>1,272,358</u>	<u>1,240,501</u>	<u>(31,857)</u>
<b><u>EXPENDITURES:</u></b>			
Current:			
Instruction	1,693,962	1,878,587	(184,625)
Student Support	336,347	388,481	(52,134)
Instructional Support	186,720	185,155	1,565
Central Support Services	27,565	24,685	2,880
Appropriated Reserve	<u>21,066</u>	<u>-</u>	<u>21,066</u>
<u>Total Expenditures</u>	<u>2,265,660</u>	<u>2,476,908</u>	<u>(211,248)</u>
<b><u>EXCESS OF REVENUES OVER</u></b>			
<b><u>EXPENDITURES</u></b>	<u>(993,302)</u>	<u>(1,236,407)</u>	
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers In	<u>993,302</u>	<u>1,236,407</u>	<u>243,105</u>
<u>Total Financing Sources (Uses)</u>	<u>993,302</u>	<u>1,236,407</u>	<u>243,105</u>
<b><u>EXCESS OF REVENUES AND OTHER</u></b>			
<b><u>FINANCING SOURCES OVER (UNDER)</u></b>			
<b><u>EXPENDITURES AND OTHER USES</u></b>	-	-	
<b><u>FUND BALANCE, Beginning</u></b>	<u>-</u>	<u>-</u>	
<b><u>FUND BALANCE, Ending</u></b>	<u>-</u>	<u>-</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>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>	<u>2008</u>
District's proportion of the net pension liability (asset)	0.1284%	0.1274%	0.1398%	0.1414%	-	-	-	-	-	-
District's proportionate share of the net pension liability (asset)	\$38,220,488	\$19,491,524	\$18,945,018	\$18,040,214	-	-	-	-	-	-
District's covered-employee payroll	\$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	657%	342%	325%	314%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	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**  
**For The Last 10 Fiscal Years (As Available)**

	<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>	<u>2008</u>
Contractually required contributions	\$1,069,003	\$1,010,077	\$982,214	\$977,021	\$854,970	-	-	-	-	-
Contributions in relation to the contractually required contributions	<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	\$5,815,736	\$5,696,167	\$5,822,142	\$5,750,544	\$5,669,608	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	18.38%	17.73%	16.87%	16.99%	15.08%	-	-	-	-	-

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.

## **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.

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

## **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, 2017**

	<u>Budgeted Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES</u></b>			
Property Taxes	610,000	711,762	101,762
Specific Ownership Taxes	111,000	138,935	27,935
Delinquent Taxes & Interest	3,000	2,470	(530)
Interest Earnings	<u>1,200</u>	<u>8,263</u>	<u>7,063</u>
<u>Total Revenues</u>	<u>725,200</u>	<u>861,430</u>	<u>136,230</u>
<b><u>EXPENDITURES:</u></b>			
Debt Service:			
Principal Retirement	205,000	205,000	-
Interest and Fiscal Charges	182,725	177,869	4,856
Appropriated Reserve	<u>725,200</u>	<u>-</u>	<u>725,200</u>
<u>Total Expenditures</u>	<u>1,112,925</u>	<u>382,869</u>	<u>730,056</u>
<u>Non-Appropriated Reserve</u>	<u>1,628,022</u>	<u>-</u>	
<b><u>EXCESS OF REVENUES OVER</u></b>			
<b><u>EXPENDITURES</u></b>	(2,015,747)	478,561	
<b><u>FUND BALANCES, Beginning</u></b>	<u>2,015,747</u>	<u>2,116,710</u>	
<b><u>FUND BALANCES, Ending</u></b>	<u>-</u>	<u>2,595,271</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, 2017**

	<u>Special Revenue Fund</u>		<u>Capital Project Fund</u>		<u>Total</u>
	<u>Student</u>	<u>Food</u>	<u>Capital</u>	<u>Building</u>	<u>Non-Major</u>
	<u>Activity</u>	<u>Service</u>	<u>Reserve</u>		<u>Governmental</u>
					<u>Funds</u>
<b><u>ASSETS</u></b>					
Cash & Investments	179,175	-	431,170	35,340	645,685
Accounts Receivable	-	108,614	-	-	108,614
Due From Other Funds	-	-	-	-	-
<u>Total Assets</u>	<u>179,175</u>	<u>108,614</u>	<u>431,170</u>	<u>35,340</u>	<u>754,299</u>
<b><u>LIABILITIES AND FUND</u></b>					
<b><u>BALANCES</u></b>					
<b><u>Liabilities:</u></b>					
Accounts Payable	-	19,090	-	-	19,090
Accrued Salaries	-	-	-	-	-
Due To Other Funds	-	<u>49,381</u>	<u>98,029</u>	-	<u>147,410</u>
<u>Total Liabilities</u>	-	<u>68,471</u>	<u>98,029</u>	-	<u>166,500</u>
<b><u>Fund Balances:</u></b>					
Restricted for:					
Capital Outlay	-	-	-	35,340	35,340
Food Service	-	40,143	-	-	40,143
Committed for:					
Capital Outlay	-	-	333,141	-	333,141
Assigned for:					
Pupil Activities	<u>179,175</u>	-	-	-	<u>179,175</u>
<u>Total Fund Balances</u>	<u>179,175</u>	<u>40,143</u>	<u>333,141</u>	<u>35,340</u>	<u>587,799</u>
<b><u>TOTAL LIABILITIES &amp; FUND</u></b>					
<b><u>BALANCES</u></b>	<u>179,175</u>	<u>108,614</u>	<u>431,170</u>	<u>35,340</u>	<u>754,299</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, 2017**

	<u>Special Revenue Fund</u>		<u>Capital Project Fund</u>		<u>Total</u>
	<u>Student</u>	<u>Food</u>	<u>Capital</u>	<u>Building</u>	<u>Non-Major</u>
	<u>Activity</u>	<u>Service</u>	<u>Reserve</u>		<u>Governmental</u>
					<u>Funds</u>
<b><u>REVENUES</u></b>					
Local Sources	433,311	126,368	-	308	559,987
State Sources	-	8,192	-	-	8,192
Federal Sources	-	916,680	-	-	916,680
<u>Total Revenues</u>	<u>433,311</u>	<u>1,051,240</u>	<u>-</u>	<u>308</u>	<u>1,484,859</u>
<b><u>EXPENDITURES</u></b>					
Current:					
Instruction	428,635	-	-	-	428,635
Support Services:					
Transportation	-	-	-	-	-
Central Support	7,385	-	-	-	7,385
Food Services	-	1,076,546	-	-	1,076,546
Capital Outlay	-	-	183,373	-	183,373
Debt Service	-	-	30,324	-	30,324
<u>Total Expenditures</u>	<u>436,020</u>	<u>1,076,546</u>	<u>213,697</u>	<u>-</u>	<u>1,726,263</u>
<b><u>EXCESS (DEFICIENCY) OF</u></b>					
<b><u>REVENUES OVER (UNDER)</u></b>					
<b><u>EXPENDITURES</u></b>	<u>(2,709)</u>	<u>(25,306)</u>	<u>(213,697)</u>	<u>308</u>	<u>(241,404)</u>
<b><u>OTHER FINANCING SOURCES</u></b>					
<b><u>(USES)</u></b>					
Transfers In (Out)	33,000	-	106,971	-	139,971
<u>Total Other Financing</u>					
<u>Sources (Uses)</u>	<u>33,000</u>	<u>-</u>	<u>106,971</u>	<u>-</u>	<u>139,971</u>
<b><u>NET CHANGE IN FUND</u></b>					
<b><u>BALANCES</u></b>	<u>30,291</u>	<u>(25,306)</u>	<u>(106,726)</u>	<u>308</u>	<u>(101,433)</u>
<b><u>FUND BALANCES, Beginning</u></b>	<u>148,884</u>	<u>65,449</u>	<u>439,867</u>	<u>35,032</u>	<u>689,232</u>
<b><u>FUND BALANCES, Ending</u></b>	<u>179,175</u>	<u>40,143</u>	<u>333,141</u>	<u>35,340</u>	<u>587,799</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, 2017**

	<u>Budgeted Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES:</u></b>			
Local Revenues	<u>305,000</u>	<u>433,311</u>	<u>128,311</u>
<u>Total Revenues</u>	<u>305,000</u>	<u>433,311</u>	<u>128,311</u>
<b><u>EXPENDITURES</u></b>			
Instructional	-	428,635	(428,635)
Central Support Services	-	7,385	(7,385)
Appropriated Reserve	<u>343,000</u>	-	<u>343,000</u>
<u>Total Expenditures</u>	<u>343,000</u>	<u>436,020</u>	<u>(93,020)</u>
<b><u>EXCESS OF REVENUES OVER</u></b>			
<b><u>(UNDER) EXPENDITURES</u></b>	<u>(38,000)</u>	<u>(2,709)</u>	
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers (Out)	<u>38,000</u>	<u>33,000</u>	<u>(5,000)</u>
<u>Total Other Financing</u>			
<u>Sources (Uses)</u>	<u>38,000</u>	<u>33,000</u>	<u>(5,000)</u>
<b><u>NON-APPROPRIATED RESERVE</u></b>	<u>(159,712)</u>	-	
<b><u>EXCESS OF REVENUES AND OTHER</u></b>			
<b><u>FINANCING SOURCES OVER (UNDER)</u></b>			
<b><u>EXPENDITURES AND OTHER USES</u></b>	<u>(159,712)</u>	<u>30,291</u>	
<b><u>FUND BALANCE, Beginning</u></b>	<u>159,712</u>	<u>148,884</u>	
<b><u>FUND BALANCE, Ending</u></b>	<u>-</u>	<u>179,175</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, 2017**

	<u>Budget Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES</u></b>			
<b><u>Local Sources</u></b>			
Food Sales	210,000	125,171	(84,829)
Interest Earned	300	1,197	897
<b><u>Total Local Sources</u></b>	<b><u>210,300</u></b>	<b><u>126,368</u></b>	<b><u>(83,932)</u></b>
<b><u>State Sources</u></b>			
State Match	7,000	7,028	28
Smart Start	5,000	1,164	(3,836)
PK-2 Reduced Breakfast	2,300	-	(2,300)
<b><u>Total State Sources</u></b>	<b><u>14,300</u></b>	<b><u>8,192</u></b>	<b><u>(6,108)</u></b>
<b><u>Federal Sources</u></b>			
School Lunches	725,000	826,534	101,534
Fresh Fruits and Vegetables	39,000	37,956	(1,044)
Commodities	40,000	52,190	12,190
<b><u>Total Federal Sources</u></b>	<b><u>804,000</u></b>	<b><u>916,680</u></b>	<b><u>112,680</u></b>
<b><u>TOTAL REVENUES</u></b>	<b><u>1,028,600</u></b>	<b><u>1,051,240</u></b>	<b><u>22,640</u></b>
<b><u>EXPENDITURES</u></b>			
Salaries	3,600	2,734	866
Benefits	750	472	278
Contracted Services	997,289	1,007,420	(10,131)
Repairs & Maintenance	2,000	7,918	(5,918)
Supplies	3,800	857	2,943
Food Expense	(22,000)	-	(22,000)
Commodities	40,000	57,145	(17,145)
Appropriated Reserve	3,161	-	3,161
<b><u>TOTAL EXPENDITURES</u></b>	<b><u>1,028,600</u></b>	<b><u>1,076,546</u></b>	<b><u>(47,946)</u></b>
<b><u>REVENUES OVER (UNDER) EXPENDITURES</u></b>	<b><u>-</u></b>	<b><u>(25,306)</u></b>	
<b><u>NON-APPROPRIATED RESERVE</u></b>	<b><u>(64,299)</u></b>	<b><u>-</u></b>	
<b><u>FUND BALANCE, Beginning</u></b>	<b><u>64,299</u></b>	<b><u>65,449</u></b>	
<b><u>FUND BALANCE, Ending</u></b>	<b><u>-</u></b>	<b><u>40,143</u></b>	

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, 2017**

	<u>Budgeted Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES:</u></b>			
Other	-	-	-
<b><u>Total Revenues</u></b>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>EXPENDITURES</u></b>			
Equipment	50,676	80,721	(30,045)
Buildings	79,000	35,027	43,973
Vehicles	126,344	67,625	58,719
Debt Service:			
Lease Purchase Interest	4,477	3,424	1,053
Lease Purchase Principal	<u>25,847</u>	<u>26,900</u>	<u>(1,053)</u>
<b><u>Total Expenditures</u></b>	<u>286,344</u>	<u>213,697</u>	<u>72,647</u>
<b><u>EXCESS OF REVENUES OVER (UNDER)</u></b>			
<b><u>EXPENDITURES</u></b>	(286,344)	(213,697)	
<b><u>OTHER FINANCINE SOURCES (USES)</u></b>			
Transfers In (Out)	<u>286,299</u>	<u>106,971</u>	(179,328)
<u>Total Other Financing Sources (Uses)</u>	<u>286,299</u>	<u>106,971</u>	(179,328)
<b><u>NON-APPROPRIATED RESERVE</u></b>	423,621	-	
<b><u>NET CHANGE IN FUND BALANCES</u></b>	(45)	(106,726)	
<b><u>FUND BALANCE, Beginning</u></b>	<u>423,666</u>	<u>439,867</u>	
<b><u>FUND BALANCE, Ending</u></b>	<u>-</u>	<u>333,141</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, 2017**

	<u>Budgeted Amounts</u> <u>Original &amp; Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>REVENUES</u></b>			
Earnings on Investments	<u>45</u>	<u>308</u>	<u>263</u>
<u>Total Revenues</u>	<u>45</u>	<u>308</u>	<u>263</u>
<b><u>EXPENDITURES</u></b>			
Building and Improvements	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Expenditures</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>REVENUES OVER (UNDER) EXPENDITURES</u></b>	<u>45</u>	<u>308</u>	
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Other Financing Sources (Uses)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>REVENUES OVER (UNDER) OTHER FINANCING</u></b>			
<b><u>SOURCES (USES) AND EXPENDITURES</u></b>	45	308	
<b><u>NON-APPROPRIATED RESERVE</u></b>	(6,914)	-	
<b><u>FUND BALANCE, Beginning</u></b>	<u>6,869</u>	<u>35,032</u>	
<b><u>FUND BALANCE, Ending</u></b>	<u>-</u>	<u>35,340</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, 2017**

	<u>Agency Funds</u>		<u>Variance with Final Budget- Favorable (Unfavorable)</u>
	<u>Budgeted Amounts Original &amp; Final</u>	<u>Actual</u>	
<b><u>ADDITIONS</u></b>			
Local Receipts	<u>71,190</u>	<u>86,025</u>	<u>14,835</u>
<b><u>DEDUCTIONS</u></b>			
Disbursements PTO	<u>70,000</u>	<u>73,981</u>	<u>(3,981)</u>
<u>Total Deductions</u>	<u>70,000</u>	<u>73,981</u>	<u>(3,981)</u>
<b><u>CHANGES IN DUE TO OTHERS</u></b>	<u>1,190</u>	<u>12,044</u>	
<b><u>NON-APPROPRIATED RESERVE</u></b>	<u>(28,822)</u>	<u>-</u>	
<b><u>DUE TO OTHERS, Beginning</u></b>	<u>27,632</u>	<u>27,632</u>	
<b><u>DUE TO OTHERS, Ending</u></b>	<u><u>-</u></u>	<u>39,676</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 2016-17  
Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg. Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
<b>Governmental</b>				
10 General Fund	3,846,240	9,169,022	8,596,297	4,418,965
18 Risk Mgmt Sub-Fund of General Fund	553	98,029	98,582	0
19 Colorado Preschool Program Fund	87,451	353,356	339,101	101,706
<b>Sub-Total</b>	<b>3,934,244</b>	<b>9,620,407</b>	<b>9,033,980</b>	<b>4,520,671</b>
11 Charter School Fund	0	0	0	0
20 36-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main, Fund	0	0	0	0
21 Food Service Spec Revenue Fund	65,449	1,051,239	1,076,546	40,143
22 Govt Designated-Purpose Grants Fund	0	2,476,909	2,476,909	0
23 Pupil Activity Special Revenue Fund	148,884	466,310	436,020	179,175
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	2,116,710	861,429	382,869	2,595,271
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	35,032	300	0	35,340
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	439,867	106,971	213,686	333,141
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
<b>Total</b>	<b>6,740,186</b>	<b>14,581,574</b>	<b>13,820,019</b>	<b>7,703,746</b>
<b>Proprietary</b>				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60 65-69 Other Internal Service Funds	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fiduciary</b>				
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	27,632	86,025	73,982	39,676
79 GASB 34 Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
<b>Total</b>	<b>27,632</b>	<b>86,025</b>	<b>73,982</b>	<b>39,676</b>
<b>FINAL</b>				



**Colorado Department of Education**  
**Bolded Balance Sheet Report**  
 District: 2520 - EAST OTERO R-1  
 Fiscal Year 2016-17  
 Colorado School District/BOCES

ASSETS	Governmental						Proprietary					Fiduciary			Totals
	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	
Cash and Investments (8100-8104,8111)	4,657,691	0	47,993	179,175	0	0	2,536,067	466,510	0	0	0	0	39,324	0	7,926,760
Cash with Fiscal Agent (8105)	28,428	0	0	0	0	0	12,548	0	0	0	0	0	0	0	40,975
Other Investment Accounts (8112-8115)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes Receivable (8121,8122)	130,978	0	0	0	0	0	57,530	0	0	0	0	0	0	0	188,508
Interfund Loans Receivable (8131,8132)	682,283	0	53,713	386,877	0	0	0	0	0	0	0	0	0	0	1,122,873
Grants Accounts Receivable (8142)	0	0	0	236,023	0	108,614	0	0	0	0	0	0	0	0	344,638
Other Receivables (8151-8154,8161)	0	0	0	0	0	0	0	0	0	0	0	0	352	0	352
Machinery and Equipment (8241,8242,8251)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Assets</b>	<b>5,499,379</b>	<b>0</b>	<b>101,706</b>	<b>803,075</b>	<b>0</b>	<b>108,614</b>	<b>2,606,145</b>	<b>466,510</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,676</b>	<b>0</b>	<b>9,624,106</b>



	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 53-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
<b>LIABILITIES &amp; FUND EQUITY</b>															
<b>LIABILITIES</b>															
Interfund Payables (7401,7402)	538,619	0	0	436,844	0	49,381	0	98,029	0	0	0	0	0	0	1,122,873
Other Payables (7421-7423)	158,562	0	0	0	0	19,090	0	0	0	0	0	0	0	0	177,652
Contracts Payable (7431-7433)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Expenses (7461)	350,108	0	0	164,680	0	0	0	0	0	0	0	0	0	0	514,788
Payroll Ded. and Withholdings (7471-7473)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned Revenue (7481)	33,125	0	0	0	0	0	10,874	0	0	0	0	0	0	0	44,000
Grants Deferred Revenue (7482)	0	0	0	21,377	0	0	0	0	0	0	0	0	0	0	21,377
Deferred Inflow (7800)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>1,080,415</b>	<b>0</b>	<b>0</b>	<b>622,901</b>	<b>0</b>	<b>68,471</b>	<b>10,874</b>	<b>98,029</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,880,630</b>

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	0	0	0	0	0	0	0	0	0	0
Restricted Fund Balance 6720	0	0	0	0	0	40,143	2,595,271	35,340	0	0	0	0	0	0	2,670,753
TABOR 3% Emergency Reserve 6721	353,175	0	0	0	0	0	0	0	0	0	0	0	0	0	353,175
TABOR Multi-Year 6722	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	101,706	0	0	0	0	0	0	0	0	0	0	0	101,706
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	333,141	0	0	0	0	0	0	333,141
Assigned Fund Balance 6760	0	0	0	179,175	0	0	0	0	0	0	0	0	0	0	179,175
Unassigned Fund Balance 6770	4,065,790	0	0	0	0	0	0	0	0	0	0	0	39,676	0	4,105,465
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
<b>Total Fund Equity</b>	<b>4,418,965</b>	<b>0</b>	<b>101,706</b>	<b>179,175</b>	<b>0</b>	<b>40,143</b>	<b>2,595,271</b>	<b>358,481</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,676</b>	<b>0</b>	<b>7,743,416</b>

<b>Total Liabilities &amp; Fund Equity</b>	<b>5,499,379</b>	<b>0</b>	<b>101,706</b>	<b>802,075</b>	<b>0</b>	<b>108,614</b>	<b>2,606,145</b>	<b>486,510</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,676</b>	<b>0</b>	<b>9,624,106</b>
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	
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	
5,499,379	0	101,706	802,075	0	108,614	2,606,145	486,510	0	0	0	0	39,676	0	9,624,106	
For Each Fund Type:	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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, 2017, 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, 2017.

**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, Waller & Co., P.C.

November 30, 2017



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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, 2017. 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, 2017.

## 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.

*Dyer, Walker & Co., Inc.*

November 30, 2017

**EAST OTERO SCHOOL DISTRICT NUMBER R-1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017**

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**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
---------	--------

**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 2016/2017.



**EAST OTERO SCHOOL DISTRICT NUMBER R-1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017**

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**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, 2017**

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**FINDINGS – FEDERAL AWARDS**

**None**

**EAST OTERO SCHOOL DISTRICT NUMBER R-1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2017**

<b>Federal Grantor/Program Federal Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Pass - Through Grantor</b>	<b>State Code Number</b>	<b>Expenditures</b>
<b><u>CHILD NUTRITION CLUSTER-CLUSTER</u></b>				
<b><u>U. S. Department of Agriculture</u></b>				
School Breakfast Program	10.553	CDE	4553	<u>273,627</u>
National School Lunch Program	10.555	CDHHS	4555	52,190
National School Lunch Program	10.555	CDE	4555	<u>514,940</u>
<b><u>Total National School Lunch Program</u></b>				<u>567,130</u>
Summer Food Service Program for Children	10.559	CDE	4559	<u>37,967</u>
<b><u>Total U.S. Department of Agriculture Cluster</u></b>				<u>878,724</u>
<b><u>TOTAL CHILD NUTRITION CLUSTER-CLUSTER</u></b>				<u>878,724</u>
Fresh Fruit and Vegetable Program	10.582	CDE	4582	<u>37,956</u>
<b><u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u></b>				<u>916,680</u>
<b><u>OTHER PROGRAMS</u></b>				
<b><u>U.S. Department of Energy</u></b>				
Early Childhood Readiness Assessment	84.412	CDE	5412	<u>1,350</u>
<b><u>Total Department of Energy</u></b>				<u>1,350</u>
<b><u>Department of Education</u></b>				
Title I Grants to Local Educational Agencies	84.010	CDE	4010	<u>669,946</u>
Career and Technical Education – Basic Grants to States	84.048	Otero Jr. College	5048	<u>1,000</u>
Rural Education	84.358	CDE	7358	<u>25,792</u>
Improving Teacher Quality State Grants	84.367	CDE	4367	<u>100,622</u>
<b><u>Total Department of Education</u></b>				<u>797,360</u>
<b><u>TOTAL OTHER PROGRAMS</u></b>				<u>798,710</u>
<b><u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u></b>				<u>1,715,390</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, 2017**

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**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, 2017.