

HINSDALE COUNTY SCHOOL DISTRICT RE-1
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 15, 2016

The Board of Education
Hinsdale County School District RE-1
Lake City, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Hinsdale County School District RE-1 (the District) as of and for the year ended June 30, 2016, 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. 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.



Hinsdale County School District RE-1

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Hinsdale County School District RE-1, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of activity – net pension liability, and schedule of activity – employer pension contributions 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hinsdale County School District RE-1's basic financial statements. The budgetary comparison schedule for the debt service fund, and the Auditors Integrity Report of the Colorado Department of Education (the Report) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Chadwick, Steinkirchner, Davis & Co., P.C.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

Management's Discussion and Analysis

As management of Hinsdale County School District RE-1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets of the District's governmental activities exceeded its liabilities at the close of the fiscal years ending June 30, 2016 and 2015 by \$1,268,624 and \$1,051,798 respectively.
- General revenues accounted for \$1,864,848 and \$1,513,775 in 2016 and 2015 respectively and grant funding accounted for \$162,438 and \$90,996 in 2016 and 2015 respectively.
- Fund balance in the General Fund increased by \$308,066 in 2016 and decreased \$(78,769) in 2015.
- At the end of the fiscal years 2016 and 2015 unassigned fund balance in the General fund was \$1,576,522 and \$1,218,456 respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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 whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. 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*.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instructional services, pupil services, instructional staff services, general administration services, school administration services, business services, maintenance and capital asset services, transportation services, central, and community services.

The government-wide financial statements include only the District itself, as the District has no component units. The government-wide financial statements can be found on pages 9-10 of this report.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds. The District uses only governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains two individual governmental funds at the end of fiscal year 2016. 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 General Fund and the Bond Redemption Debt Service Fund, both of which are considered to be major funds.

The District adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 and 13 of this report.

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 beginning on page 17 of this report.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$1,268,624 and \$1,051,798 at the close of the 2016 and 2015 fiscal years respectively.

One of the largest portions of the District's net position (\$1,964,881) reflects its investment in capital assets (e.g., land, buildings, improvements and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Property taxes are levied specifically to fund debt service on general obligation bonds.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

The other large portion of net position is the District's net pension liability for employees covered under PERA. This net liability is \$2,788,831 at June 30, 2016.

HINSDALE COUNTY SCHOOL DISTRICT RE-1 - Net Position

	Governmental Activities 2016	Governmental Activities 2015
Assets:		
Current and other assets	\$ 2,000,463	\$ 1,732,771
Capital assets	2,439,881	2,438,042
Total	<u>4,440,344</u>	<u>4,170,813</u>
Deferred outflows of resources	350,048	124,562
Liabilities		
Long-term debt	475,000	540,000
Pension liabilities	2,788,831	2,470,156
Other liabilities	147,694	120,924
Total liabilities	<u>3,411,525</u>	<u>3,131,080</u>
Deferred inflows of resources	110,242	112,497
Net position		
Net investment in capital assets	1,964,881	1,898,043
Restricted	273,067	243,854
Unrestricted	(969,324)	(1,090,099)
	<u>\$ 1,268,624</u>	<u>\$ 1,051,798</u>

A portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

There was a decrease in long-term liabilities outstanding of \$65,000 in fiscal year 2016, due to payment of debt obligations with no new issuances.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

HINSDALE COUNTY SCHOOL DISTRICT RE-1 Change in Net Position

	Governemental Activities 2016	Governemental Activities 2015
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 155,917	\$ 87,204
Charges for sales and service	6,521	3,792
General revenue;		
Property taxes levied for general purposes	1,043,066	1,081,312
Property taxes levied for debt service	101,908	104,816
State equalization not restricted to specific programs	321,616	191,047
Specific ownership taxes	78,077	75,449
Secure rural schools	285,485	-
Unrestricted investment earnings	6,025	1,843
Gain on sale of assets	-	7,000
Other unrestricted revenue	<u>28,671</u>	<u>52,268</u>
Total revenues	2,027,286	1,604,731
Expenses		
Instructional services	997,188	908,296
Pupil services	173,719	126,498
General administrative services	292,723	220,019
Business services	71,351	55,249
Operations and maintenance	183,811	124,231
Pupil transportation	45,060	62,390
Community service	6,562	2,468
Central support and other services	13,864	9,949
Interest on long term debt	<u>26,182</u>	<u>29,370</u>
Total expenses	1,810,460	1,538,470
Increase (decrease) in net position	216,826	66,261
Net position, July 1	1,051,798	3,406,799
Change in accounting principle	<u>-</u>	<u>(2,421,262)</u>
Net position, July 1 restated	<u>1,051,798</u>	<u>985,537</u>
Net position, June 30	<u>\$ 1,268,624</u>	<u>\$ 1,051,798</u>

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

Operating grants and contributions increased by \$68,713 in the current year due in large part to an increase in the Counselor grant received by the school District which increased by about \$50,000 between 2015 and 2016.

State equalization increased by \$130,569 which was due to a significant increase in students between 2015 and 2016 and put the student count over 100 for 2016. The funding formula also changed resulting in more revenue for the District.

The District received two payments for Secure and Rural Schools in 2016 as compared to no funding in the prior year.

Increases in expenses were a result of the addition of a SPED instructor, moving some previous part time positions to full-time and significant maintenance and repairs on a building owned by the District. There was also additional expense for Human Resources and finance software in 2016.

Capital Asset and Debt Administration

Capital assets - The District's investment in capital assets for its governmental activities as of June 30, 2016 amounts to \$2,439,881 (net of accumulated depreciation). This investment in capital assets includes land and improvements such as parking lots and sidewalks, buildings and improvements, and equipment.

Capital Assets
(net of depreciation)

	Governmental 2016	Governmental 2015
Land	\$ 642,359	\$ 633,903
Buildings and building improvements	1,723,233	1,755,717
Transportation Equipment	73,448	47,581
Equipment	841	841
Total	\$ 2,439,881	\$ 2,438,042

Long-term debt. At the end of the current fiscal year, the District had total outstanding debt of \$475,000 all of which represents general obligation bonds that are backed by the full faith and credit of the District.

State statutes limit the amount of general obligation debt a governmental entity may issue to 20 percent of its total assessed valuation. The current debt limitation for the District is significantly in excess of the District's outstanding general obligation debt.

Pension Liability

During the year ended June 30, 2015, the District implemented GASB 68, Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27. This resulted in an increase in liabilities for the District who now shows \$2,788,831 for its share of the net pension liability for PERA at year end.

Coming Year

Some items affecting the District in 2017 include a new instructor position, a new lighting system and continued increased maintenance expenditures on a house owned by the District.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Finance
Hinsdale County School District Re-1
Po Box 39,
Lake City, CO 81235

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,727,621
Property taxes receivable	244,261
Other receivables	28,581
Capital Assets:	
Land and improvements not being depreciated	642,359
Buildings and improvements	2,283,719
Equipment	29,514
Transportation Equipment	205,027
Less: Accumulated depreciation	(720,738)
Total assets	4,440,344
DEFERRED OUTFLOWS OF RESOURCES	
Difference in investment earnings	237,108
Difference between expected and actual experience	36,827
Change in proportionate share	889
Pension contributions made after the measurement date	75,224
Total deferred outflows of resources	350,048
LIABILITIES	
Accounts payable and accrued expenses	147,694
Long-term liabilities:	
Current portion of long-term debt	70,000
Net Pension Obligation	2,788,831
Due in more than one year	405,000
Total liabilities	3,411,525
DEFERRED INFLOWS OF RESOURCES	
Pension change in proportionate share of net pension liability	70,714
Difference between expected and actual experience	117
Changes in assumptions	39,411
	110,242
NET POSITION	
Invested in capital assets, net of related debt	1,964,881
Restricted for:	
TABOR Reserve	61,300
Debt Service	211,767
Unrestricted	(969,324)
Total net position	\$ 1,268,624

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Functions/Programs	Expenses	Charges for Service and Sales	Operating Grants and Contributions	Net (expenses) revenues and changes in net position
				Primary government Governmental Activities
Primary government:				
Governmental activities				
Instructional Services	\$ 997,188	\$ 6,521	\$ 155,206	\$ (835,461)
Supporting Services:				
Pupil services	173,719	-	-	(173,719)
Business services	71,351	-	-	(71,351)
General and school administration	292,723	-	-	(292,723)
Community services	6,562	-	-	(6,562)
Central support and other services	13,864	-	-	(13,864)
Operations and maintenance	183,811	-	-	(183,811)
Pupil transportation	45,060	-	711	(44,349)
Interest on long-term debt	26,182	-	-	(26,182)
Total governmental activities	<u>\$ 1,810,460</u>	<u>\$ 6,521</u>	<u>\$ 155,917</u>	<u>(1,648,022)</u>
General Revenue				
Taxes:				
				1,144,974
				321,616
				78,077
				6,025
				314,156
				<u>1,864,848</u>
				216,826
				1,051,798
				<u>\$ 1,268,624</u>

The accompanying notes are an integral part of the financial statements. - 10 -

HINSDALE COUNTY SCHOOL DISTRICT RE-1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Debt Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,530,856	\$ 196,765	\$ 1,727,621
Property tax receivable	223,022	21,239	244,261
Other receivables	28,581	-	28,581
Total assets	<u>1,782,459</u>	<u>218,004</u>	<u>2,000,463</u>
Liabilities:			
Salaries payable	120,764	-	120,764
Other payables	26,930	-	26,930
Total liabilities	<u>147,694</u>	<u>-</u>	<u>147,694</u>
Deferred inflows of resources			
Deferred property tax revenue	58,243	6,237	64,480
Total deferred inflows	<u>58,243</u>	<u>6,237</u>	<u>64,480</u>
Fund balances			
Restricted for:			
Tabor reserve	61,300	-	61,300
Debt service	-	211,767	211,767
Unassigned	1,515,222	-	1,515,222
Total fund balances	<u>\$ 1,576,522</u>	<u>\$ 211,767</u>	<u>\$ 1,788,289</u>

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balance, governmental funds		\$ 1,788,289
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Property taxes receivable in the funds that are not received within the 60 day window or reported as deferred inflows in the funds but as property tax revenue in the government wide statement of activities		
		64,480
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets	3,160,619	
Less accumulated depreciation	<u>(720,738)</u>	2,439,881
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund.		
Long term liabilities at year-end consist of:		
Net Pension Obligation	(2,788,831)	
Deferred inflows related to pension	(110,242)	
Deferred outflows related to pension	350,047	
General obligation bonds	<u>(475,000)</u>	(3,024,026)
Net position of governmental activities		<u><u>\$ 1,268,624</u></u>

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2016

	General Fund	Debt Service	Total Governmental Funds
Revenues			
Property taxes	\$ 1,127,264	\$ 102,770	\$ 1,230,034
Specific ownership taxes	71,560	6,517	78,077
Equalization (net)	321,616	-	321,616
Grant income	42,734	-	42,734
Investment earnings	5,566	458	6,024
Transportation	711	-	711
Other local revenue	432,922	-	432,922
Total revenues	<u>2,002,373</u>	<u>109,745</u>	<u>2,112,118</u>
Expenditures			
Current:			
Instructional services	956,744	-	956,744
Instructional support	173,719	-	173,719
Business services	70,701	650	71,351
General and school administration	201,564	-	201,564
Transportation	87,342	-	87,342
Operations and maintenance	183,811	-	183,811
Community service	6,562	-	6,562
Central and other support services	13,864	-	13,864
Debt service			
Principal	-	65,000	65,000
Interest	-	26,182	26,182
Total expenditures	<u>1,694,307</u>	<u>91,832</u>	<u>1,786,139</u>
Excess (deficiency) of revenues over (under) expenditures	308,066	17,913	325,979
Fund balance, beginning of year	<u>1,268,456</u>	<u>193,854</u>	<u>1,462,310</u>
Fund balance, end of year	<u>\$ 1,576,522</u>	<u>\$ 211,767</u>	<u>\$ 1,788,289</u>

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Net change in fund balances - total governmental funds	\$	325,979
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Amounts reported for governmental activities in the statement of activities
are different because:

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

Capital outlay	\$ 55,920	
Depreciation expense	<u>(54,082)</u>	1,838

In the governmental funds, expenditures for the defined benefit plan are
measured by the amount of financial resources used (essentially, the
amounts actually paid to the Public Employee Retirement Association),
whereas in the statement of activities, they are measured as the liability
is accrued according to actuarial estimates. This is the amount the net
pension liability (increased) decreased in the current year. (90,932)

Because some property taxes will not be collected for several months after
the District's fiscal year ends, they are not considered "available" revenues
in the governmental funds. Deferred tax revenues decreased by this amount
this year. (85,059)

Governmental funds report bond payments as current year expenditures
however, in the government -wide statements these payments are
reported as reductions of long-term liabilities. This is the amount of
principal payments on bonds in the current year. 65,000

Change in net position of governmental activities	\$	<u><u>216,826</u></u>
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The accompanying notes are an integral part of the financial statements.

HINSDALE COUNTY SCHOOL DISTRICT RE-1

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ 990,000	\$ 1,086,477	\$ 1,119,180	\$ 32,703
Specific ownership tax	75,000	75,000	71,560	(3,440)
Interest and penalties	7,000	7,000	8,084	1,084
Investment income	1,300	1,300	5,566	4,266
Other local revenue	138,911	138,911	35,404	(103,507)
Total local sources	1,212,211	1,308,688	1,239,794	(68,894)
State sources:				
State equalization	262,703	262,703	321,616	58,913
Transportation	1,200	1,200	711	(489)
Other state sources	73,856	73,856	397,518	323,662
Total state sources	337,759	337,759	719,845	382,086
Federal sources				
Title I	28,737	28,737	24,539	(4,198)
REAP	12,000	12,000	14,153	2,153
Other federal sources	-	166,384	4,042	(162,342)
Total federal sources	40,737	207,121	42,734	(164,387)
Total revenues	1,590,707	1,853,568	2,002,373	148,805
Expenditures				
Instructional services:				
Elementary	262,413	268,728	296,669	(27,941)
Middle School	213,356	213,356	184,405	28,951
High School	219,724	219,724	281,096	(61,372)
Preschool	67,109	67,109	46,658	20,451
Special education	148,031	148,031	147,916	115
Total instructional services	910,633	916,948	956,744	(39,796)

(continued)

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Instructional support:				
Student support	\$ 103,210	\$ 160,550	\$ 115,912	\$ 44,638
Instructional staff	53,701	53,701	57,807	(4,106)
General administration	230,521	230,521	201,564	28,957
Business support	60,111	60,111	70,701	(10,590)
Operations and maintenance	165,115	165,115	183,811	(18,696)
Student transportation	51,460	97,806	87,342	10,464
Other support services	15,956	15,956	20,426	(4,470)
Total support services	<u>680,074</u>	<u>783,760</u>	<u>737,563</u>	<u>46,197</u>
Total expenditures	<u>1,590,707</u>	<u>1,700,708</u>	<u>1,694,307</u>	<u>6,401</u>
Excess (deficiency) of revenues over (under expenditures)	-	152,860	308,066	155,206
Fund balance, beginning of year	<u>1,268,456</u>	<u>1,268,456</u>	<u>1,268,456</u>	-
Fund balance, end of year	<u>\$ 1,268,456</u>	<u>\$ 1,421,316</u>	<u>\$ 1,576,522</u>	<u>\$ 155,206</u>

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND

Year ended June 30, 2016

	<u>CRC Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 34,146
Total assets	<u>\$ 34,146</u>
Liabilities	
Payable to others	\$ 34,146
Total liabilities	<u>\$ 34,146</u>

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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hinsdale County School District RE-1 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

The following is a summary of the District's significant accounting policies:

1. The Reporting Entity

The District is governed by a five member Board of Education and is organized and operates in accordance with Colorado Statutes. Board of Education members are elected by the citizens of Hinsdale County, not appointed by any other governing body. The Board selects the superintendent of schools and senior level administrators. The Board is solely responsible for the District's budget adoption process. The District independently issues debt for short and long-term financing. The District meets the criteria of a primary government: its Board is the publicly elected governing body; it is a legally separate entity; and it is fiscally independent. The District is not included in any other governmental reporting entity and does not include any component units.

2. 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 non-fiduciary activities of the primary government and its component unit. 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 District has no business-type activities.

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 or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

If needed, separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements when they exist. Currently, the District does not have any non-major or proprietary funds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Bond Redemption Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the District.

Additionally, the government reports the following fiduciary fund:

The *Community Recreation Committee Agency Fund* is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations or budgetary accounting.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund activity is not eliminated in the fund financial statements.

Amounts reported as program revenues include 1) charges to students and customers for tuition, fees, rental or services provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

4. Assets, Liabilities and Net Position or Equity

Cash and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of bonds of U.S. local government entities, bankers acceptances of certain banks, commercial paper, written repurchase agreements collateralized by certain authorized securities, certain money market funds, and guaranteed investment contracts.

Receivables and Payables

Interfund receivables and payables, if any, result from overdrafts of the cash and investment pool. These outstanding balances between funds are reported as "due to/from other funds."

Property taxes are levied in December and attach as a lien on property the following January 1. They are payable in full by April 30, or in two equal installments due February 28 and June 15. Property taxes previously levied and collected in the following year are reported as a receivable at June 30, net of an estimated uncollectible portion. In the fund financial statements, the portion of the property taxes receivable not collected within 60 days after June 30 are recorded as a deferred inflow of resources, since such tax collections are not available to pay liabilities of the fiscal year ended June 30.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The District has no reportable infrastructure.

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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Buildings and building improvements	75
Vehicles	10
Equipment	5

Future Compensated Absences

The District's professional staff generally works on a contract basis that provides for an agreed number of working days each year. There is no specific provision in the personnel policies for paid vacation days.

The personnel policies detail several circumstances requiring leaves of absences including sick leave, personal leave, emergency leave, family illness and termination. The District has no liability for such absences at June 30, 2016.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements, governmental fund types recognize debt premium and discounts, as well as bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Stewardship, compliance and accountability

Budgetary Information

Annual budgets are adopted for all funds on a basis consistent with GAAP, with two exceptions. The June 30 accrual for unpaid salaries and severance pay in the General Fund is not budgeted. Property tax revenue received from the County treasurer in July and August is not budgeted in the funds.

In June, the Board of Education adopts the budget for the following fiscal year. The District submits its adopted (revised) budget to the CDE on or before January 31 in the approved format. The Board may amend or adopt supplemental budgets during the budget year

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgeted level of expenditures

Expenditures may not legally exceed appropriations at the fund level. Administrative control is maintained through the use of detailed line-item budgets. Budgets must be amended at the fund level by the Board of Education. At year-end, all appropriations lapse in accordance with Colorado statutes.

Budgetary basis of accounting

Appropriated budgets are adopted by the Board of Education for the General and Bond Redemption funds. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

6. Pensions

For the year ended June 30, 2015, the District adopted the provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 68 – *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, which replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The District 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.

NOTE B – CASH AND INVESTMENTS

Cash and investments consist of the following:

Demand accounts	\$ 807,705
CSAFE	196,766
COLOTRUST	723,150
Total cash and investments	<u>\$ 1,727,621</u>

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – CASH AND INVESTMENTS – CONTINUED

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 102% of the aggregate uninsured deposits.

At year-end the carrying amount of the district's bank accounts was \$841,005 and \$250,000 of that balance was covered by federal depository insurance. The remaining \$591,005 was collateralized with securities held in a single financial institution collateral pool, in accordance with Title II, Article 10.5 of the Colorado Revised Statutes.

Investments

The District had invested \$723,150 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The trust operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to this trust in connection with their direct investment and withdrawal functions. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. COLOTRUST funds carry a AAAM rating from Standard & Poor's. COLOTRUST is considered a Level 2 investment on the fair value hierarchy.

The District had invested \$196,766 in The Colorado Surplus Asset Fund (CSafe) which exists under the laws of the State of Colorado and is registered with the Securities Commissioner of the State of Colorado. The pool is similar to a money market fund, with each share valued at \$1. CSafe has a weighted average maturity under 60 days and has a rating of AAAM by S&P at June 30, 2016.

NOTE C – FUND BALANCES

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" clearly defines fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE C – FUND BALANCES – CONTINUED

- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the School Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the School Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the School Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, the District will use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned.

NOTE D – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 633,903	\$ –	\$ –	\$ 633,903
Construction in progress	<u>8,456</u>	<u>–</u>	<u>–</u>	<u>8,456</u>
Total non-depreciable capital assets	642,359	–	–	642,359
Capital assets, being depreciated:				
Buildings and improvements	2,268,145	15,574	–	2,283,719
Equipment	29,514	–	–	29,514
Transportation equipment	<u>164,680</u>	<u>40,347</u>	<u>–</u>	<u>205,027</u>
Total depreciable capital assets	2,462,339	55,920	–	2,518,260
Less accumulated depreciation:				
Buildings and improvements	(520,883)	(39,603)	–	(560,486)
Land improvements	(28,673)	–	–	(28,673)
Vehicles and equipment	<u>(117,100)</u>	<u>(14,479)</u>	<u>–</u>	<u>(131,579)</u>
Total accumulated depreciation	<u>(666,656)</u>	<u>(54,082)</u>	<u>–</u>	<u>(720,738)</u>
Total depreciable capital assets, net	<u>1,795,683</u>	<u>1,839</u>	<u>–</u>	<u>1,797,522</u>
Governmental activities capital assets, net	<u>\$ 2,438,042</u>	<u>\$ 1,839</u>	<u>\$ –</u>	<u>\$ 2,439,881</u>

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D – CAPITAL ASSETS - CONTINUED

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

Governmental activities:	
Instructional services	\$ 40,444
Pupil transportation services	<u>13,638</u>
Total depreciation expense	
Governmental activities	<u>\$ 54,082</u>

NOTE E – LONG-TERM DEBT AND LOAN PAYABLE

Changes in the District's long-term obligations during the year end June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ <u>540,000</u>	\$ <u>—</u>	\$ <u>(65,000)</u>	\$ <u>475,000</u>	\$ <u>70,000</u>

General Obligation Bonds, Series 2001

In 2001 the District issued \$1,166,982 of General Obligation Series 2001 Bonds. The proceeds of the bond issue were used to improve and equip the existing school buildings. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Debt service for the 2001 bonds is accounted for in the Bond Redemption Fund. In March 2010, the District switched from American National Bank to UMB Corporate Services as the bond registrar and paying agent for the 2001 bonds.

Debt service requirements to maturity for the General Obligation Series 2001 Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2017	70,000	22,810	92,810	5.2%
2018	75,000	19,110	94,110	5.2%
2019	75,000	15,210	90,210	5.2%
2020	80,000	11,180	91,180	5.2%
2021	85,000	6,890	91,890	5.2%
2022	<u>90,000</u>	<u>2,340</u>	<u>92,340</u>	5.2%
	<u>\$ 475,000</u>	<u>\$ 77,540</u>	<u>\$ 552,540</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit 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 for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

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

In all cases the service retirement benefit is limited to 100% 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% or 100% 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 receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% 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% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve for the SCHDTF.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

Contributions. Eligible employees and the District are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401 *et seq.* Eligible employees are required to contribute 8% of their PERA-includable salary.

The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. §24-51-208(l)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. §24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. §24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the District were \$145,175 for the year ended June 30, 2016.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

At June 30, 2016, the District reported a liability of \$2,788,831 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on the District's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the District's proportion was 0.0182344538%, which was an increase of 0.0000090394% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$236,110. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 36,827	\$ 117
Changes of assumptions or other inputs	-	39,411
Net difference between projected and actual earnings on pension plan investments	237,108	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	889	70,714
Contributions subsequent to the measurement date	75,224	-
Total	<u>\$ 350,048</u>	<u>\$ 110,242</u>

\$75,224 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, 2017. 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 <u>June 30,</u>	
2017	20,525
2018	33,046
2019	62,474
2020	48,537
Thereafter	-

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 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, 2013, and an economic assumption study, adopted by PERA's Board on November's 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18 month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

Pension Plan Disclosure Statements for PERA-Affiliated Employers in the School Division Trust Fund

- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial liability payment calculations to reflect contributions throughout the year.

The SCHDTF’s long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of the geometric real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov’t/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	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 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.9%

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified by law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop .50% every year until they are zero. Additionally, estimated employer contributions included reduction 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 the 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 the 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 actuarial costs method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the District proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.5%) or 1-percentage point higher (8.5%) than the current rate:

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

	Sensitivity of the NPL		
Discount rate:	6.50%	7.50%	8.50%
Proportionate share of the net pension liability	\$ 3,615,140	\$ 2,788,831	\$ 2,101,496

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

NOTE G – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description. The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF 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.

Funding Policy. The District is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. The District’s employer contributions to HCTF for the years ended June 30, 2016, 2015 and 2014 were \$8,339, \$8,234, and \$7,746 respectively, equal to the required contribution for the year.

NOTE H – RISK MANAGEMENT

The District insures against loss or damage to property; pays premiums on loss insurances; and pays judgments, administrative and legal claims. This activity occurs in the General Fund.

The District is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks are covered by the District’s participation as a member of the Colorado School District Self-Insurance Pool, which operates as a risk-sharing public entity risk pool comprised of various school districts and other related public educational entities within the State of Colorado. The Pool provides the District with general, property and vehicle liability insurance. In the event of the impairment or insolvency of the Pool the District may be assessed such amounts as may be necessary to ensure the solvency of the Pool. The likelihood of an event of this type occurring is remote. For the fiscal year ended June 30, 2016 the District paid premiums of \$8,827. In the event of impairment or insolvency of the Pool, the District may be assessed such amounts as may be necessary to ensure the solvency of the Pool. The likelihood of an event of this type occurring is remote.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment. The voters approved a ballot issue in a general election which allows the District to exceed revenue limitations required by the amendment.

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 restrict emergency reserves to be used for declared emergencies only. TABOR requires local governments to restrict 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 restricted fund balances are required to be three percent or more of fiscal year spending (excluding bonded debt service and other items specifically listed in the Amendment).

Hinsdale County School District RE-1

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2016

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
Measurement date:					
December 31, 2015	0.0182344538%	\$ 2,788,831	\$ 794,439	351%	59%
December 31, 2014	0.0182254143%	\$ 2,470,156	\$ 763,513	324%	63%

Hinsdale County School District RE-1

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2016

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2016	\$ 145,175	\$ 145,175	\$ -	\$ 818,556	17.74%
June 30, 2015	\$ 129,990	\$ 129,990	\$ -	\$ 769,760	16.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

HINSDALE COUNTY SCHOOL DISTRICT RE-1

DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2016

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ 92,777	\$ 92,777	\$ 102,770	\$ 9,993
Specific ownership taxes	-	-	6,517	6,517
Investment income	-	-	458	458
Total revenues	<u>92,777</u>	<u>92,777</u>	<u>109,745</u>	<u>16,968</u>
Expenditures				
Current:				
Debt Service				
Principal	65,000	65,000	65,000	-
Interest	27,777	27,777	26,182	1,595
Fees	-	-	650	(650)
Total debt services	<u>92,777</u>	<u>92,777</u>	<u>91,832</u>	<u>945</u>
Excess (deficiency) of revenues over (under expenditures)	-	-	17,913	17,913
Fund balance, beginning of year	<u>193,854</u>	<u>193,854</u>	<u>193,854</u>	<u>-</u>
Fund balance, end of year	<u>\$ 193,854</u>	<u>\$ 193,854</u>	<u>\$ 211,767</u>	<u>\$ 17,913</u>



Colorado Department of Education
Auditors Integrity Report
 District: 1380 - HINSDALE COUNTY RE 1
 Fiscal Year 2015-16
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	1,268,456	2,002,373	1,694,307	1,576,522
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub-Total	1,268,456	2,002,373	1,694,307	1,576,522
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	0	0	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	193,853	109,746	91,832	211,767
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0	0
Totals	1,462,310	2,112,119	1,786,139	1,788,290
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	0	0	0	0

FINAL

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