

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

June 30, 2017

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 21, 2017

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, 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. 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 and each major fund of Hinsdale County School District RE-1, as of June 30, 2017, and the respective changes in financial position



Hinsdale County School District RE-1
Page Two

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.

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

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, 2017.

Financial Highlights

- The assets of the District's governmental assets exceeded its liabilities at the close of the fiscal years ending June 30, 2017 and 2016 by \$262,268 and \$1,268,624 respectively.
- General revenues accounted for \$1,664,142 and \$1,864,848 in 2017 and 2016 respectively.
- Fund balance in the General Fund decreased by \$208,269 in 2017 and increased by \$308,066 in 2016.
- At the end of the fiscal years 2017 and 2016 unassigned fund balance in the General fund was \$1,371,511 and \$1,576,522 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, 2017

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 2017. 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 18 of the audit 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 \$262,268 and \$1,268,624 at the close of the 2017 and 2016 fiscal years respectively.

One of the largest portions of the District's net position (\$2,023,542) 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.

The other large portion of net position is the District's net pension liability for employees covered under PERA. This net liability is \$5,636,353 at June 30, 2017.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

HINSDALE COUNTY SCHOOL DISTRICT RE-1 - Net Position

	Activities 2017	Activities 2016
	<u> </u>	<u> </u>
Assets:		
Current and other assets	\$ 1,826,982	\$ 2,000,463
Capital assets	2,428,542	2,439,881
Total	<u>4,255,524</u>	<u>4,440,344</u>
Deferred outflows of resources	2,232,916	350,048
Liabilities		
Long-term debt	405,000	475,000
Pension liabilities	5,636,353	2,788,831
Other liabilities	159,352	147,694
Total liabilities	<u>6,200,705</u>	<u>3,411,525</u>
Deferred inflows of resources	25,467	110,242
Net position		
Net investment in capital assets	2,023,542	1,964,881
Restricted	279,663	273,067
Unrestricted	(2,040,937)	(696,324)
	<u>\$ 262,268</u>	<u>\$ 1,268,624</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 \$70,000 in fiscal year 2017, due to payment of debt obligations with no new issuances.

The drastic change in net position is due to the change in reporting of pension liabilities. This change in the reporting cost the district \$2,847,522 in net position. That change in reporting along with a decrease in fund balance of \$208, 269 that was balanced by the increases in net investment and the decrease in long-term debt.

The pension liability increased from \$2,788,831 in 2016 to \$5,636,353 at June 30, 2017. This change was due to changes in assumptions used to determine the PERA net pension liability at December 31, 2016 including a change in the discount rate from 7.5% to 5.26%. This change contributed to the District recognizing a decrease in net position of \$1,006,356 for the year ended June 30, 2017.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

HINSDALE COUNTY SCHOOL DISTRICT RE-1 Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 120,357	\$ 155,917
Charges for sales and service	11,660	6,521
General revenue;		
Property taxes levied for general purposes	1,146,456	1,043,066
Property taxes levied for debt service	91,256	101,908
State equalization not restricted to specific programs	400,883	321,616
Specific ownership taxes	81,011	78,077
Secure rural schools	-	285,485
Unrestricted investment earnings	8,607	6,025
Gain on sale of assets	-	-
Other unrestricted revenue	27,185	28,671
Total revenues	<u>1,796,129</u>	<u>2,027,286</u>
Expenses		
Instructional services	1,147,101	997,188
Pupil services	233,038	173,719
General administrative services	1,081,232	292,723
Business services	62,098	71,351
Operations and maintenance	174,313	183,811
Pupil transportation	60,620	45,060
Community service	3,402	6,562
Central support and other services	17,872	13,864
Interest on long term debt	22,809	26,182
Total expenses	<u>2,802,485</u>	<u>1,810,460</u>
Increase (decrease) in net position	(1,006,356)	216,826
Net position, July 1	<u>1,268,624</u>	<u>1,051,798</u>
Net position, June 30	<u>\$ 262,268</u>	<u>\$ 1,268,624</u>

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

State equalization increased by \$79,266 which was due to a funding formula change resulting in more revenue for the district. The increase was off-set by repayment to the state for audits conducted in 2012 and 2016.

The District received no payments for Secure and Rural Schools in 2017 as compared to two payments in the prior funding year.

Increases in expenses were a result of the field trip taken by the High School to Washington DC which was planned to be paid for over two year but all of the invoices came in 2017. We also had building maintenance costs for the main building and to remodel the house owned by the district.

Capital Asset and Debt Administration

Capital assets - The District's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$2,428,542 (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 2017	Governmental 2016
Land and Construction in Progress	\$ 669,975	\$ 642,359
Buildings and building improvements	1,688,000	1,723,233
Transportation Equipment	69,726	73,448
Equipment	841	841
Total	\$ 2,428,542	\$ 2,439,881

Long-term debt. At the end of the current fiscal year, the District had total outstanding debt of \$405,000 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 \$5,636,353 for its share of the net pension liability for PERA at year end.

Coming Year

Some items affecting the District in 2018 will include budgeting to replace and repair bathroom floors, work or replacement of the school boiler, and budgeting for a fiber technology line.

Requests for Information

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

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, 2017

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,582,118
Property taxes receivable	237,969
Other receivables	6,895
Capital Assets:	
Land and improvements not being depreciated	669,975
Buildings and improvements	2,288,402
Equipment	29,514
Transportation Equipment	221,527
Less: Accumulated depreciation	(780,876)
Total assets	4,255,524
DEFERRED OUTFLOWS OF RESOURCES	
Difference in investment earnings	188,468
Difference between expected and actual experience	70,463
Change in assumptions	1,828,879
Pension change in proportionate share of net pension liability	52,648
Pension contributions made after the measurement date	92,458
Total deferred outflows of resources	2,232,916
LIABILITIES	
Accounts payable and accrued expenses	159,352
Long-term liabilities:	
Current portion of long-term debt	75,000
Net Pension Obligation	5,636,353
Due in more than one year	330,000
Total liabilities	6,200,705
DEFERRED INFLOWS OF RESOURCES	
Difference between expected and actual experience	50
Changes in assumptions	25,417
	25,467
NET POSITION	
Invested in capital assets, net of related debt	2,023,542
Restricted for:	
TABOR Reserve	61,300
Debt Service	218,363
Unrestricted	(2,040,937)
Total net position	\$ 262,268

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

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	\$ 1,147,101	\$ 11,660	\$ 119,118	\$ (1,016,323)
Supporting Services:				
Pupil services	233,038	-	-	(233,038)
Business services	62,098	-	-	(62,098)
General and school administration	1,081,232	-	-	(1,081,232)
Community services	3,402	-	-	(3,402)
Central support and other services	17,872	-	-	(17,872)
Operations and maintenance	174,313	-	-	(174,313)
Pupil transportation	60,620	-	1,209	(59,411)
Interest on long-term debt	22,809	-	-	(22,809)
Total governmental activities	<u>\$ 2,802,485</u>	<u>\$ 11,660</u>	<u>\$ 120,327</u>	<u>(2,670,498)</u>
General Revenue				
Taxes:				
Property taxes				1,146,456
State equalization not restricted to specific programs				400,883
Specific ownership taxes				81,011
Unrestricted investment earnings				8,607
Other unrestricted revenues				27,185
				<u>1,664,142</u>
Change in net position				(1,006,356)
Net position, beginning of year				1,268,624
Net position, end of year				<u>\$ 262,268</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, 2017

	General Fund	Debt Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,376,946	\$ 205,172	\$ 1,582,118
Property tax receivable	217,485	20,484	237,969
Other receivables	6,895	-	6,895
Total assets	<u>1,601,326</u>	<u>225,656</u>	<u>1,826,982</u>
Liabilities:			
Salaries payable	131,379	-	131,379
Unearned revenues	27,973	-	27,973
Total liabilities	<u>159,352</u>	<u>-</u>	<u>159,352</u>
Deferred inflows of resources			
Deferred property tax revenue	70,463	7,293	77,756
Total deferred inflows	<u>70,463</u>	<u>7,293</u>	<u>77,756</u>
Fund balances			
Restricted for:			
Tabor reserve	61,300	-	61,300
Debt service	-	218,363	218,363
Unassigned	1,310,211	-	1,310,211
Total fund balances	<u>\$ 1,371,511</u>	<u>\$ 218,363</u>	<u>\$ 1,589,874</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, 2017

Total fund balance, governmental funds		\$ 1,589,874
Amounts reported for governmental activities in the Statement of Net Position 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		
		77,756
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets	3,209,419	
Less accumulated depreciation	<u>(780,876)</u>	2,428,543
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	(5,636,354)	
Deferred inflows related to pension	(25,467)	
Deferred outflows related to pension	2,232,916	
General obligation bonds	<u>(405,000)</u>	(3,833,905)
Net position of governmental activities		<u><u>\$ 262,268</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, 2017

	General Fund	Debt Service	Total Governmental Funds
Revenues			
Property taxes	\$ 1,027,354	\$ 91,526	\$ 1,118,880
Specific ownership taxes	73,647	7,364	81,011
Equalization (net)	400,883	-	400,883
Grant income	119,142	-	119,142
Investment earnings	7,442	1,165	8,607
Transportation	1,209	-	1,209
Other local revenue	53,122	-	53,122
Total revenues	<u>1,682,799</u>	<u>100,055</u>	<u>1,782,854</u>
Expenditures			
Current:			
Instructional services	1,086,964	-	1,086,964
Instructional support	233,038	-	233,038
Business services	61,448	650	62,098
General and school administration	201,354	-	201,354
Transportation	77,120	-	77,120
Operations and maintenance	206,612	-	206,612
Community service	3,402	-	3,402
Central and other support services	17,872	-	17,872
Debt service			
Principal	-	70,000	70,000
Interest	-	22,809	22,809
Total expenditures	<u>1,887,810</u>	<u>93,459</u>	<u>1,981,269</u>
Excess (deficiency) of revenues over (under) expenditures	(205,011)	6,596	(198,415)
Fund balance, beginning of year	<u>1,576,522</u>	<u>211,767</u>	<u>1,788,289</u>
Fund balance, end of year	<u><u>\$ 1,371,511</u></u>	<u><u>\$ 218,363</u></u>	<u><u>\$ 1,589,874</u></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, 2017

Net change in fund balances - total governmental funds	\$ (198,415)
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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	\$ 48,798	
Depreciation expense	<u>(60,138)</u>	(11,340)

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) expense in the current year. (879,878)

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. 13,277

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. 70,000

Change in net position of governmental activities	<u><u>\$ (1,006,356)</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, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ 990,000	\$ 990,000	\$ 1,019,122	\$ 29,122
Specific ownership tax	72,000	72,000	73,647	1,647
Interest and penalties	8,000	8,000	8,232	232
Investment income	1,900	1,900	7,442	5,542
Other local revenue	29,865	29,865	53,122	23,257
Total local sources	1,101,765	1,101,765	1,161,565	59,800
State sources:				
State equalization	346,966	346,966	400,883	53,917
Transportation	500	500	1,209	709
Other state sources	232,385	97,385	76,410	(20,975)
Total state sources	579,851	444,851	478,502	33,651
Federal sources				
Title I	28,737	28,737	23,896	(4,841)
REAP	12,000	12,000	14,906	2,906
Other federal sources	-	-	3,930	3,930
Total federal sources	40,737	40,737	42,732	1,995
Total revenues	1,722,353	1,587,353	1,682,799	95,446
Expenditures				
Instructional services:				
Elementary	240,836	240,836	272,127	(31,291)
Middle School	224,287	224,287	214,562	9,725
High School	267,474	267,474	339,654	(72,180)
Preschool	66,057	66,057	67,517	(1,460)
Special education	201,509	201,509	193,104	8,405
Total instructional services	1,000,163	1,000,163	1,086,964	(86,801)

(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, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Instructional support:				
Student support	\$ 107,361	\$ 109,961	\$ 106,109	\$ 3,852
Instructional staff	127,828	127,828	126,929	899
General administration	198,927	198,927	201,354	(2,427)
Business support	62,618	62,618	61,448	1,170
Operations and maintenance	170,807	241,307	206,612	34,695
Student transportation	66,230	66,230	77,120	(10,890)
Other support services	30,881	68,881	21,274	47,607
Total support services	<u>764,652</u>	<u>875,752</u>	<u>800,846</u>	<u>74,906</u>
Total expenditures	<u>1,764,815</u>	<u>1,875,915</u>	<u>1,887,809</u>	<u>(11,894)</u>
Excess (deficiency) of revenues over (under expenditures)	(42,462)	(288,562)	(205,011)	83,551
Fund balance, beginning of year	<u>1,576,522</u>	<u>1,576,522</u>	<u>1,576,522</u>	-
Fund balance, end of year	<u>\$ 1,534,060</u>	<u>\$ 1,287,960</u>	<u>\$ 1,371,511</u>	<u>\$ 83,551</u>

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND

Year ended June 30, 2017

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 3,571
Total assets	<u>\$ 3,571</u>
Liabilities	
Payable to others	\$ 3,571
Total liabilities	<u>\$ 3,571</u>

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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 *Hot Lunch Account Agency Fund* is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations or budgetary accounting. The account was held and controlled by the PTSA through June 30, 2017.

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, 2017

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, banker's 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, 2017

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, 2017.

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, 2017

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. The District exceeded budgeted expenditures in the general fund by \$11,894 in 2017.

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	\$ 651,017
CSAFE	205,172
COLOTRUST	<u>729,500</u>
Total cash and investments	<u>\$ 1,585,689</u>

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 \$719,971 and \$250,000 of that balance was covered by federal depository insurance. The remaining \$469,971 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 \$729,500 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 \$205,172 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, 2017.

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, 2017

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>32,299</u>	<u>(4,683)</u>	<u>36,072</u>
Total non-depreciable capital assets	642,359	32,299	(4,683)	669,975
Capital assets, being depreciated:				
Buildings and improvements	2,283,719	4,683	–	2,288,402
Equipment	29,514	–	–	29,514
Transportation equipment	<u>205,027</u>	<u>16,500</u>	<u>–</u>	<u>221,527</u>
Total depreciable capital assets	2,518,260	21,183	–	2,539,443
Less accumulated depreciation:				
Buildings and improvements	(560,486)	(39,916)	–	(600,402)
Land improvements	(28,673)	–	–	(28,673)
Vehicles and equipment	<u>(131,579)</u>	<u>(20,222)</u>	<u>–</u>	<u>(151,801)</u>
Total accumulated depreciation	<u>(720,738)</u>	<u>(60,138)</u>	<u>–</u>	<u>(780,876)</u>
Total depreciable capital assets, net	<u>1,797,522</u>	<u>(38,955)</u>	<u>–</u>	<u>1,758,567</u>
Governmental activities capital assets, net	<u>\$ 2,439,881</u>	<u>\$ (6,656)</u>	<u>\$ (4,683)</u>	<u>\$ 2,428,542</u>

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE D – CAPITAL ASSETS - CONTINUED

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

Governmental activities:	
Instructional services	\$ 39,916
Pupil transportation services	<u>20,222</u>
Total depreciation expense	
Governmental activities	<u>\$ 60,138</u>

NOTE E – LONG-TERM DEBT AND LOAN PAYABLE

Changes in the District’s long-term obligations during the year end June 30, 2017 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>\$ 475,000</u>	<u>\$ —</u>	<u>\$ (70,000)</u>	<u>\$ 405,000</u>	<u>\$ 75,000</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>
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>\$ 405,000</u>	<u>\$ 54,730</u>	<u>\$ 459,730</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017

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, 2016	For the Year Ended December 31, 2017
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	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. §24-51-411 ¹	4.50%	5.00%
Total Employer Contribution Rate to the SCHDTF ¹	18.13%	18.63%

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 \$166,474 for the year ended June 30, 2017.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017, the District reported a liability of \$5,636,353 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 District's proportion of the net pension liability was based on the District's 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 District's proportion was 0.0189305383%, which was an increase of 0.0006960845% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,046,351. At June 30, 2017, 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	\$ 70,463	\$ 50
Changes of assumptions or other inputs	1,828,879	25,417
Net difference between projected and actual earnings on pension plan investments	188,468	–
Changes in proportion and differences between contributions recognized and proportionate share of contributions	52,648	–
Contributions subsequent to the measurement date	92,458	–
Total	<u>\$ 2,232,916</u>	<u>\$ 25,467</u>

\$92,458 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 <u>June 30,</u>	
2018	829,826
2019	859,286
2020	424,889
2021	990
Thereafter	–

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial assumptions. The total pension liability in the December 31, 2015 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
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

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 were 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
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 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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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.

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 Health 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:

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

- 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.

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:

<u>Asset Class</u>	<u>Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
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	<u>100.00%</u>	

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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 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 3.5 percent.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, 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.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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.

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 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:

	Sensitivity of the NPL		
Discount rate:	4.26%	5.26%	6.26%
Proportionate share of the net pension liability	\$ 7,087,533	\$ 5,636,353	\$ 4,454,420

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 online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

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, 2017, 2016 and 2015 were \$9,234, \$8,339, and \$8,234 respectively, equal to the required contribution for the year.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017 the District paid premiums of \$9,377. 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.

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, 2017

	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, 2016	0.0189305383%	\$ 5,636,353	\$ 905,249	623%	43%
December 31, 2015	0.0182344538%	\$ 2,788,831	\$ 849,636	328%	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, 2017

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2017	\$ 166,474	\$ 166,474	\$ -	\$ 904,888	18.40%
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

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26% based on the municipal bond index rate. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other 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, 2017

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ 94,560	\$ 94,560	\$ 91,526	\$ (3,034)
Specific ownership taxes	-	-	7,364	7,364
Investment income	-	-	1,165	1,165
Total revenues	94,560	94,560	100,055	5,495
Expenditures				
Current:				
Debt Service				
Principal	94,560	94,560	70,000	24,560
Interest	-	-	22,809	(22,809)
Fees	-	-	650	(650)
Total debt services	94,560	94,560	93,459	1,101
Excess (deficiency) of revenues over (under expenditures)	-	-	6,596	6,596
Fund balance, beginning of year	211,767	211,767	211,767	-
Fund balance, end of year	\$ 211,767	\$ 211,767	\$ 218,363	\$ 6,596



Colorado Department of Education

Auditors Integrity Report

District: 1380 - HINSDALE COUNTY RE 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
Governmental	+		-	=
10 General Fund	1,576,522	1,682,799	1,887,811	1,371,511
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	1,576,522	1,682,799	1,887,811	1,371,511
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
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	211,767	100,055	93,459	218,363
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
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	1,788,290	1,782,855	1,981,270	1,589,874
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