

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

June 30, 2019

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 30, 2019

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, 2019, 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Hinsdale County School District RE-1
Page Two

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, the schedules for other postemployment benefits and the budget to actual schedules for the general fund 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 schedules for the debt service fund and the capital construction 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, 2019

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, 2019.

Financial Highlights

- Net position had a positive change of \$2,184,643 in 2019 due primarily to the decrease in the District's portion of the net pension liability.
- General revenues accounted for \$1,737,888 and \$1,820,694, and grants and charges for services were \$2,070,044 and \$231,401 for 2019 and 2018 respectively.
- Fund balance in the General Fund decreased by \$96,621 in 2019 and increased by \$258,582 in 2018.
- At the end of the fiscal years 2019 and 2018 unassigned fund balance in the General fund was \$1,429,000 and \$1,444,205 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 8-9 of this report.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2019

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 three individual governmental funds at the end of fiscal year 2019. 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, and the Capital Construction Fund these three are considered to be the major funds.

The District adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for the general fund, the capital fund, and the debt service fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 and 12 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 14 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 \$1,366,174 and liabilities exceed assets by \$818,469 at the close of the 2019 and 2018 fiscal years respectively.

One of the largest portions of the District's net position (\$4,094,198) 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 and the other post employment liability for the health care trust fund for employees covered under PERA. This net liability is \$2,823,146 at June 30, 2019.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2019

HINSDALE COUNTY SCHOOL DISTRICT RE-1 - Net Position

	Activities 2019	Activities 2018
Assets		
Current and other assets	\$ 7,166,055	\$ 2,035,503
Capital assets	4,409,583	2,384,621
Total assets	<u>11,575,638</u>	<u>4,420,124</u>
Deferred outflows of resources	872,161	1,971,177
Liabilities		
Long-term debt	4,635,182	330,000
Pension liabilities	2,964,144	6,483,597
Other liabilities	1,147,933	134,549
Total liabilities	<u>8,747,259</u>	<u>6,948,146</u>
Deferred inflows of resources	2,334,366	261,624
Net position		
Net investment in capital assets	4,094,198	2,054,621
Restricted	465,685	286,385
Unrestricted	(3,193,709)	(3,159,475)
Total net position	<u>\$ 1,366,174</u>	<u>\$ (818,469)</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 an increase in long-term liabilities outstanding of \$4,305,182 in fiscal year 2019 that includes the issuance of \$4,385,182 in new bonds including a premium of \$435,182. The bonds are being used to construct a new auditorium, additional classrooms, and additional administrative space.

The change in net position is due primarily to a decrease in the net pension liability that was a result of a contribution by the State of Colorado to PERA on-behalf of its participants. The decrease in the pension and OPEB liability between the current year and prior year was \$3,519,453. Additionally, there were significant additions to capital assets as a result of the construction that was started for an addition to the school. The majority of the additions in 2019 have been funded by a BEST grant.

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2019

HINSDALE COUNTY SCHOOL DISTRICT RE-1 Change in Net Position

	Governmental Activities 2019	Governmental Activities 2018
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 206,975	\$ 212,729
Charges for sales and service	3,649	18,672
Capital grants and contributions	1,859,420	-
General revenue:		
Property taxes	1,172,697	1,016,960
State equalization not restricted to specific programs	397,484	393,069
Specific ownership taxes	87,073	79,196
Secure rural schools		
Unrestricted investment earnings	68,699	15,362
Gain on sale of assets		
Other unrestricted revenue	11,935	316,107
Total revenues	3,807,932	2,052,095
Expenses		
Instructional services	682,407	986,537
Pupil services	192,218	238,225
General administrative services	261,280	1,440,800
Business services	68,416	61,912
Operations and maintenance	167,128	128,131
Pupil transportation	42,046	68,524
Community service	2,861	9,760
Central support and other services	12,071	12,970
Food service	-	32,148
Bond issuance costs	111,594	-
Interest on long-term debt	83,268	19,110
Total expense	1,623,289	2,998,117
Increase (decrease) in net position	2,184,643	(946,022)
Beginning net position	(818,469)	262,265
Change in accounting principle	-	(134,712)
Beginning net position, restated	(818,469)	127,553
Ending net position	\$ 1,366,174	\$ (818,469)

HINSDALE COUNTY SCHOOL DISTRICT RE-1
Management's Discussion and Analysis
For the fiscal year ended June 30, 2019

The district started the federal lunch program in 2018. This program was catered by a local business and began in September of the school year. The local business has since gone out of business and no federal lunch program was in place for 2019.

The district issued bonds in the amount of \$4,385,000 including a premium of \$435,182 during 2019. These bond proceeds in addition to a BEST grant were used to fund additions to the school that will be completed in 2020.

Capital Asset and Debt Administration

Capital assets - The District's investment in capital assets for its governmental activities as of June 30, 2019 amounts to \$4,409,582 (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 2019	Governmental 2018
Land and construction in progress	\$ 2,769,922	\$ 686,175
Buildings and building improvements	1,608,794	1,648,710
Tranportation equipment	30,866	49,736
Equipment	-	-
Total	\$ 4,409,582	\$ 2,384,621

Long-term debt. At the end of the current fiscal year, the District had total outstanding debt of \$4,635,182 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.

Coming Year

The District plans to complete construction of the addition to the school during 2020.

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:

Susan Thompson
Business Manager
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, 2019

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,237,198
Property taxes receivable	230,662
Intergovernmental receivables	635,129
Other receivables	63,066
Capital Assets:	
Land and improvements not being depreciated	633,903
Construction in progress	2,136,019
Buildings and improvements	2,288,402
Equipment	29,514
Transportation Equipment	221,527
Less: Accumulated depreciation	(899,782)
Total assets	11,575,639
DEFERRED OUTFLOWS OF RESOURCES	
Outflows related to pension liability	865,166
Outflows related to OPEB obligation	6,995
Total deferred outflows of resources	872,161
LIABILITIES	
Accounts payable	998,729
Accrued payroll	134,879
Accrued interest on long-term debt	14,325
Long-term liabilities:	
Current portion of long-term debt	161,754
Net pension liability	2,823,146
Net OPEB obligation	140,998
Due in more than one year	4,473,428
Total liabilities	8,747,259
DEFERRED INFLOWS OF RESOURCES	
Inflows related to pension obligation	2,329,126
Inflows related to OPEB obligation	5,240
Total deferred inflows of resources	2,334,366
NET POSITION	
Invested in capital assets, net of related debt	4,094,198
Restricted for:	
TABOR Reserve	104,472
Debt Service	361,213
Unrestricted	(3,193,709)
Total net position	\$ 1,366,174

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

Functions/Programs	Expenses	Charges for Service and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Net (expenses) revenues and changes in net position
					Primary government Governmental Activities
Primary government:					
Governmental activities					
Instructional Services	\$ 682,407	\$ 3,649	\$ 113,711	\$ -	\$ (565,047)
Supporting Services:					
Pupil services	192,218	-	-	-	(192,218)
Business services	68,416	-	11,772	-	(56,644)
General and school administration	261,280	-	-	1,859,420	1,598,140
Community services	2,861	-	80,717	-	77,856
Central support and other services	12,071	-	-	-	(12,071)
Operations and maintenance	167,128	-	-	-	(167,128)
Pupil transportation	42,046	-	775	-	(41,271)
Bond issuance costs	111,594	-	-	-	(111,594)
Interest on long-term debt	83,268	-	-	-	(83,268)
Total governmental activities	<u>\$ 1,623,289</u>	<u>\$ 3,649</u>	<u>\$ 206,975</u>	<u>\$ 1,859,420</u>	<u>446,756</u>
General Revenue					
Taxes:					
Property taxes					1,172,697
State equalization not restricted to specific programs					397,484
Specific ownership taxes					87,073
Unrestricted investment earnings					68,699
Other unrestricted revenues					11,935
					<u>1,737,888</u>
Change in net position					2,184,643
Net position, beginning of year					(818,469)
Net position, end of year					<u>\$ 1,366,174</u>

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

HINSDALE COUNTY SCHOOL DISTRICT RE-1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	General Fund	Debt Service	Capital Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,596,108	\$ 321,294	\$ 4,319,796	\$ 6,237,198
Restricted cash and cash equivalents				
Property tax receivable	181,197	49,465	-	230,662
Intergovernmental receivable	-	-	635,129	635,129
Due from other funds	-	-	109,500	109,500
Other receivables	63,066	-	-	63,066
Total assets	1,840,371	370,759	5,064,425	7,275,555
Liabilities:				
Accounts payable	1,800	-	907,327	909,127
Salaries payable	134,879	-	-	134,879
Due to other funds	109,500	-	-	109,500
Unearned revenues	27,973	-	-	27,973
Total liabilities	274,152	-	907,327	1,181,479
Deferred inflows of resources				
Deferred property tax revenue	32,747	9,546	-	42,293
Total deferred inflows	32,747	9,546	-	42,293
Fund balances				
Restricted for:				
Tabor reserve	104,472	-	-	104,472
Debt service	-	361,213	-	361,213
Assigned				
Capital construction	-	-	4,157,098	4,157,098
Unassigned	1,429,000	-	-	1,429,000
Total fund balances	\$ 1,533,472	\$ 361,213	\$ 4,157,098	\$ 6,051,783

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, 2019

Total fund balance, governmental funds		\$ 6,051,783
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		
		42,293
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets	5,309,365	
Less accumulated depreciation	<u>(899,782)</u>	4,409,583
Accrued interest on long-term debt is reported in the statement of net position but is not included in the fund financial statements.		
		(14,325)
Retainage payable is not recognized in fund financial statements until it is due and payable, but is recognized as a liability in the statement of net position.		
		(61,629)
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 Liability	(2,823,146)	
Deferred inflows related to pension	(2,329,126)	
Deferred outflows related to pension	865,166	
Net OPEB Obligation	(140,998)	
Deferred inflows related to OPEB	(5,240)	
Deferred outflows related to OPEB	6,995	
Premium on long term debt	(435,182)	
General obligation bonds	<u>(4,200,000)</u>	(9,061,531)
Net position of governmental activities		<u><u>\$ 1,366,174</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, 2019

	General Fund	Debt Service Fund	Capital Fund	Total Governmental Funds
Revenues				
Property taxes	\$ 915,170	\$ 268,655	\$ -	\$ 1,183,825
Specific ownership taxes	74,956	12,117	-	87,073
Equalization (net)	397,484	-	-	397,484
Grant income	115,228	-	1,859,420	1,974,648
Investment earnings	17,079	5,412	46,208	68,699
Transportation	775	-	-	775
Other local revenue	96,931	-	-	96,931
Total revenues	<u>1,617,623</u>	<u>286,184</u>	<u>1,905,628</u>	<u>3,809,435</u>
Expenditures				
Current:				
Instructional services	1,023,623	-	-	1,023,623
Instructional support	192,218	-	-	192,218
Business services	67,303	1,113	-	68,416
General and school administration	202,218	-	-	202,218
Transportation	42,046	-	-	42,046
Operations and maintenance	167,128	-	-	167,128
Community service	2,861	-	-	2,861
Central and other support services	12,071	-	-	12,071
Capital outlay	4,776	-	2,022,118	2,026,894
Bond issuance costs	-	-	111,594	111,594
Debt service	-	-	-	0
Principal	-	80,000	-	80,000
Interest	-	68,943	-	68,943
Total expenditures	<u>1,714,244</u>	<u>150,056</u>	<u>2,133,712</u>	<u>3,998,012</u>
Excess (deficiency) of revenues over (under) expenditures	(96,621)	136,128	(228,084)	(188,577)
Other financing sources (uses)				
Proceeds from bond premium	-	-	435,182	435,182
Proceeds from bond issuance	-	-	3,950,000	3,950,000
Transfer to other funds	-	-	-	-
Transfer from other funds	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,385,182</u>	<u>4,385,182</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	(96,621)	136,128	4,157,098	4,196,605
Fund balance, beginning of year	1,630,093	225,085	-	1,855,178
Fund balance, end of year	<u>\$ 1,533,472</u>	<u>\$ 361,213</u>	<u>\$ 4,157,098</u>	<u>\$ 6,051,783</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, 2019

Net change in fund balances - total governmental funds \$ 4,196,605

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

Government wide portion of the State PERA contribution. 1,983

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	\$ 1,960,489	
Retainage payable	61,629	
Depreciation expense	<u>(58,785)</u>	1,963,333

In the governmental funds, expenditures for the defined benefit plan are
measured by the amount of financial resources used , 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 decreased expense in the current year. 348,051

In the governmental funds, expenditures for the OPEB plan (HCTF) are
measured by the amount of financial resources used ,
whereas in the statement of activities, they are measured as the liability
is accrued according to actuarial estimates. This is the amount the net
OPEB obligation (increased) expense in the current year. (2,337)

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. (3,485)

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. Proceeds from the
issuance of bonds is treated as a financing source in the funds but is
treated as a long term liability in the government-wide statements.

Proceeds from debt issuance	(3,950,000)	
Proceeds from premium on bond issuance	(435,182)	
Bond principal payments	80,000	
Adjustment for accrued interest on long-term debt	<u>(14,325)</u>	<u>(4,319,507)</u>

Change in net position of governmental activities \$ 2,184,643

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

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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, 2019

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.

The *Capital Fund* accounts for bond proceeds, grants, and contributions received and the expenditures made for capital improvements to the District's facilities.

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, 2019

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 \$5,000 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, 2019

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, 2019.

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 it’s 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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 debt service fund by \$57,246 and in the capital construction fund by \$133,712 in 2019.

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).

7. Pensions

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.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SCHDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SCHDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SCHDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years

8. Defined Benefit Other Post Employment Benefit Plan (OPEB)

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

NOTE B – CASH AND INVESTMENTS

Cash and investments consist of the following:

Demand accounts	\$ 842,931
CSAFE	315,382
COLOTRUST	<u>5,078,885</u>
Total cash and investments	<u>\$ 6,237,198</u>

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.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE B – CASH AND INVESTMENTS – CONTINUED

At year-end the carrying amount of the district's bank accounts was \$1,187,712 and \$250,000 of that balance was covered by federal depository insurance. The remaining \$937,712 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 \$5,078,885 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 at fair value.

The District had invested \$315,582 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. CSAFE adheres to the guidelines outlined in GASB 79, *Certain External Investment Pools and Pool Participants*, regarding liquidity, maturity, quality, diversification and shadow NAV pricing. CSAFE measures its investment at amortized cost for financial reporting purposes and has been rated AAm by Standard & Poor's. The pool is similar to a money market fund, with each share valued at \$1, though this is not guaranteed. Investment objectives focus on safety, liquidity, transparency, and competitive yields through investment in a diversified portfolio of short-term marketable securities. CSAFE may invest in U.S. Treasury securities, U.S. governmental agency securities, commercial paper, corporate fixed notes, and repurchase agreement collateralized with securities valued in excess of the repurchase agreement amount. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodian. There are no limits or restrictions on participant withdrawals.

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.
- *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.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE C – FUND BALANCES – CONTINUED

- *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>52,272</u>	<u>2,083,747</u>	<u>–</u>	<u>2,136,019</u>
Total non-depreciable capital assets	686,175	2,083,747	–	2,769,922
Capital assets, being depreciated:				
Buildings and improvements	2,288,402	–	–	2,288,402
Equipment	29,514	–	–	29,514
Transportation equipment	<u>221,527</u>	<u>–</u>	<u>–</u>	<u>221,527</u>
Total depreciable capital assets	2,539,443	–	–	2,539,443
Less accumulated depreciation:				
Buildings and improvements	(639,692)	(39,916)	–	(679,608)
Equipment	(29,514)	–	–	(29,514)
Transportation equipment	<u>(171,791)</u>	<u>(18,869)</u>	<u>–</u>	<u>(190,660)</u>
Total accumulated depreciation	<u>(840,997)</u>	<u>(58,785)</u>	<u>–</u>	<u>(899,782)</u>
Total depreciable capital assets, net	<u>1,698,446</u>	<u>(58,785)</u>	<u>–</u>	<u>1,639,661</u>
Governmental activities capital assets, net	<u>\$ 2,384,621</u>	<u>\$ 2,024,962</u>	<u>\$ –</u>	<u>\$ 4,409,583</u>

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE D – CAPITAL ASSETS - CONTINUED

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

Governmental activities:

Instructional services	\$ 39,915
Pupil transportation services	<u>18,870</u>
Total depreciation expense	
Governmental activities	<u>\$ 58,785</u>

NOTE E – LONG-TERM DEBT

Changes in the District's long-term obligations during the year end June 30, 2019 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					
Series 2001	\$ 330,000	\$ –	\$ (80,000)	\$ 250,000	\$ 80,000
Series 2019	–	3,950,000	–	3,950,000	60,000
Bond premium	<u>–</u>	<u>435,182</u>	<u>–</u>	<u>435,182</u>	<u>21,759</u>
Total	<u>\$ 330,000</u>	<u>\$ 4,385,182</u>	<u>\$ (80,000)</u>	<u>\$ 4,635,182</u>	<u>\$ 161,754</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. The interest rate on the bonds is 5.20 percent.

Debt service for the 2001 bonds is accounted for in the Bond Redemption Fund.

General Obligation Bonds, Series 2019

In 2019 the District issued \$3,950,000 of General Obligation Series 2019 Bonds. The proceeds of the bond issue were used to build a gymnasium, and additional classroom and administration space at the school. The bonds will be paid over 20 years with interest rates varying from 4.00 to 5.00 percent. The bonds were sold at a premium of \$435,182.

Debt service for the bonds is accounted for in the Bond Redemption Fund. UMB Corporate Services is the bond registrar and paying agent for the 2001 and 2019 bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE E – LONG-TERM DEBT - CONTINUED

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2020	\$ 80,000	\$ 9,100	\$ 91,100	5.2%
2021	80,000	6,890	86,890	
2022	90,000	2,340	92,340	5.2%
	<u>\$ 250,000</u>	<u>\$ 13,780</u>	<u>\$ 188,788</u>	

Debt service requirements to maturity for the Series 2019 General Obligation Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2020	\$ 60,000	\$ 170,700	\$ 230,700	4.00%
2021	55,000	168,400	223,400	4.00%
2022	55,000	166,200	221,200	4.00%
2023	155,000	162,000	317,000	4.00%
2024	160,000	155,700	315,700	4.00%
2025 - 2029	915,000	673,200	1,588,200	4.00%
2030 - 2034	1,130,000	443,750	1,573,750	5.00%
2034 - 2039	1,420,000	147,700	1,567,700	5.00%
	<u>\$ 3,950,000</u>	<u>\$ 2,087,650</u>	<u>\$ 6,037,650</u>	

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 as of December 31, 2018. 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.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN - CONTINUED

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

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

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

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

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

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

As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lesser of an annual increase of 1.5 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1 percent based on the parameters specified C.R.S. § 24-51-413.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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 provisions as of June 30, 2019: Eligible employees, District and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 8 percent of their PERA-includable salary during the period of July 1, 2018 through June 30, 2019. Employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2019
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(1)(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	5.50%	5.50%
Total employer contribution rate to the SCHDTF¹	19.13%	19.13%

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

As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

Hinsdale County School District RE-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 \$177,408 for the year ended June 30, 2019.

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

The net pension liability for the SCHDTF was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total pension liability to December 31, 2018. The District's proportion of the net pension liability was based on the District's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers and the State as a nonemployer contributing entity.

At June 30, 2019, the District reported a liability of \$2,823,146 for its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the District as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the District were as follows:

The District's proportionate share of the net pension liability	\$2,823,146
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the District	339,592
Total	\$3,162,738

At December 31, 2018, the District proportion was .016 percent, which was a decrease of .0036 percent from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$(147,716) and revenue of \$24,910. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 95,764	\$ –
Changes of assumptions or other inputs	526,952	1,755,693
Net difference between projected and actual earnings on pension plan investments	153,879	–
Changes in proportion and differences between contributions recognized and proportionate share of contributions	–	573,433
Contributions subsequent to the measurement date	88,571	N/A
Total	\$ 865,166	\$2,329,126

\$88,571 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2019:	
2020	(324,044)
2021	(818,154)
2022	(494,506)
2023	84,173
2024	–
Thereafter	–

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	4.78 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually, thereafter
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including the scheduled increases in SB 18-200. 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 for each year, including the scheduled increase in SB 18-200. Employer contributions also include the 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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

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.

- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process 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. 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 middle of the year.

Based on the above assumptions and methods, the projection test indicates 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 of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.78 percent, 2.47 percent lower compared to the current 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F – DEFINED BENEFIT PENSION PLAN – CONTINUED

	1% Decrease (6.25%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$3,589,147	\$2,823,146	\$2,180,342

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

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

General Information about the OPEB Plan

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

PERA Benefit Structure

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

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

DPS Benefit Structure

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

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

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$8,980 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$140,998 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018. The District's proportion of the net OPEB liability was based on the District's contributions to the HCTF for the calendar year 2018 relative to the total contributions of participating employers to the HCTF.

At December 31, 2018, the District's proportion was .010 percent, which was a decrease of .0008 from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$10,513. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$512	\$–
Changes of assumptions or other inputs	989	–
Net difference between projected and actual earnings on OPEB plan investments	811	215
Changes in proportion and differences between contributions recognized and proportionate share of contributions	–	5,025
Contributions subsequent to the measurement date	4,683	N/A
Total	\$6,995	\$5,240

\$4,683 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
2020	\$(488)
2021	(488)
2022	(488)
2023	75
2024	(1,396)
Thereafter	(143)

Actuarial assumptions. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually rising to 5.00 percent in 2025
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA Benefit Structure:

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$736	\$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
UnitedHealthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is \$422 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
UnitedHealthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below>

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2017, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2018 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability	\$137,105	\$140,999	\$145,477

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2018, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$157,765	\$140,999	\$126,665

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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, 2019 the District paid premiums of \$11,298. 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

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

Year ended June 30, 2019

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ 1,033,291	1,033,291	\$ 910,131	\$ (123,160)
Specific ownership tax	72,000	72,000	74,956	2,956
Interest and penalties	8,000	8,000	5,039	(2,961)
Investment income	10,000	10,000	17,079	7,079
Other local revenue	36,300	36,300	96,931	60,631
Total local sources	1,159,591	1,159,591	1,104,136	(55,455)
State sources:				
State equalization	394,388	394,388	397,484	3,096
Transportation	757	757	775	18
Other state sources	193,588	193,588	81,816	(111,772)
Total state sources	588,733	588,733	480,075	(108,658)
Federal sources				
Title I	25,000	25,000	19,917	(5,083)
REAP	14,500	14,500	-	(14,500)
Other federal sources	-	-	13,495	13,495
Total federal sources	39,500	39,500	33,412	(6,088)
Total revenues	1,787,824	1,787,824	1,617,623	(170,201)
Expenditures				
Instructional services:				
Elementary	244,456	244,456	309,319	(64,863)
Middle School	229,389	229,389	191,155	38,234
High School	240,027	240,027	251,641	(11,614)
Preschool	62,866	62,866	67,087	(4,221)
Special education	232,250	232,250	204,420	27,830
Total instructional services	1,008,988	1,008,988	1,023,622	(14,634)

(continued)

HINSDALE COUNTY SCHOOL DISTRICT RE-1

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

Year ended June 30, 2019

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Instructional support:				
Student support	\$ 82,352	\$ 82,352	\$ 73,757	\$ 8,595
Instructional staff	124,699	124,699	118,462	6,237
General administration	195,741	195,741	202,218	(6,477)
Business support	70,549	70,549	67,303	3,246
Operations and maintenance	175,886	175,886	167,128	8,758
Student transportation	56,500	56,500	42,046	14,454
Other support services	17,300	17,300	14,932	2,368
Capital outlay	40,500	-	4,776	(4,776)
Total support services	<u>763,527</u>	<u>723,027</u>	<u>690,622</u>	<u>32,405</u>
Total expenditures	<u>1,772,515</u>	<u>1,732,015</u>	<u>1,714,244</u>	<u>17,771</u>
Excess (deficiency) of revenues over (under expenditures)	15,309	55,809	(96,621)	(152,430)
Other financing (uses)				
Transfer to other funds	-	-	-	-
Excess (deficiency) of revenues over (under expenditures) and other financing uses	15,309	55,809	(96,621)	(152,430)
Fund balance, beginning of year	-	-	1,630,093	(1,630,093)
Fund balance, end of year	<u>\$ 15,309</u>	<u>\$ 55,809</u>	<u>\$ 1,533,472</u>	<u>\$ (1,934,953)</u>

HINSDALE COUNTY SCHOOL DISTRICT RE-1

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2019

Measurement date:	<u>Employer proportion of NPL</u>	<u>Employer proportionate share of NPL</u>	<u>Employer covered payroll</u>	<u>Employer proportionate share of NPL as a percentage of covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
December 31, 2018	0.0159436221%	\$ 2,823,146	\$ 876,505	322%	57%
December 31, 2017	0.0196027792%	\$ 6,338,842	\$ 907,274	699%	44%
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, 2019

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2019	\$ 177,408	\$ 177,408	\$ -	\$ 880,436	20.15%
June 30, 2018	\$ 168,627	\$ 168,627	\$ -	\$ 892,819	18.89%
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%

HINSDALE COUNTY SCHOOL DISTRICT RE-1

SCHEDULE OF ACTIVITY - NET OPEB LIABILITY

June 30, 2019

	Employer proportion of NOPEBL	Employer proportionate share of NOPEBL	Employer covered payroll	Employer proportionate share of NOPEBL as a percentage of covered payroll	OPEB plan's fiduciary net position as a percentage of total OPEB liability
<u>Measurement date:</u>					
December 31, 2018	0.0103634338%	\$ 140,999	\$ 876,505	16%	17%
December 31, 2017	0.0111384768%	\$ 144,756	\$ 904,274	16%	18%

HINSDALE COUNTY SCHOOL DISTRICT RE-1

SCHEDULE OF ACTIVITY - EMPLOYER OPEB CONTRIBUTIONS

June 30, 2019

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2019	\$ 8,980	\$ 8,980	\$ -	\$ 880,436	1.02%
June 30, 2018	\$ 9,107	\$ 9,107	\$ -	\$ 892,818	1.02%

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, 2019

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Property taxes	\$ -	\$ 92,160	\$ 268,655	\$ 176,495
Specific ownership taxes	-	-	12,117	12,117
Investment income	-	2,828	5,412	2,584
Total revenues	-	94,988	286,184	191,196
Expenditures				
Current:				
Debt Service				
Principal	-	92,160	80,000	12,160
Interest	-	-	68,943	(68,943)
Fees	-	650	1,113	(463)
Total debt services	-	92,810	150,056	(57,246)
Excess (deficiency) of revenues over (under expenditures)	-	2,178	136,128	133,950
Fund balance, beginning of year	-	225,085	225,085	-
Fund balance, end of year	\$ -	\$ 227,263	\$ 361,213	\$ 133,950

HINSDALE COUNTY SCHOOL DISTRICT RE-1

CAPITAL CONSTRUCTION FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

Year ended June 30, 2019

	Budget		Actual	Variance with
	Original	Amended		Final Budget
				Positive (Negative)
Revenues				
Local sources:				
Grants	\$ -	\$ 906,186	\$ 476,661	\$ (429,525)
BEST grant	-	295,000	1,382,759	1,087,759
Contributions	-	-	46,208	46,208
Investment income	-	-	-	-
Total revenues	-	1,201,186	1,905,628	704,442
Expenditures				
Construction	-	2,000,000	2,022,118	(22,118)
Bond issuance costs	-	-	111,594	(111,594)
Total expenditures	-	2,000,000	2,133,712	(133,712)
Excess (deficiency) of revenues over (under expenditures)	-	(503,814)	(228,084)	570,730
Other financing sources (uses)				
Premium on bond issuance	-	-	435,182	435,182
Bond proceeds	-	4,310,820	3,950,000	(360,820)
Total other financing sources	-	4,310,820	4,385,182	74,362
Excess of revenues or expenditures and other financing sources	-	3,807,006	4,157,098	645,092
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ 3,807,006	\$ 4,157,098	\$ 645,092



Colorado Department of Education
Auditors Integrity Report
 District: 1380 - Hinsdale County RE 1
 Fiscal Year 2018-19
 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	1,630,093	1,617,623	1,714,244	1,533,472
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	1,630,093	1,617,623	1,714,244	1,533,472
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	225,085	286,183	150,055	361,213
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	6,290,809	2,133,712	4,157,098
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	1,855,178	8,194,615	3,998,010	6,051,783
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