

**Washington County School District R-3**  
**Otis, Colorado**

**Financial Statements**

**For the Year ended June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 8:38 am, Oct 19, 2016*

## Table of Contents

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net position	10
Statement of Activities	12-13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Fiduciary Net position – Fiduciary Funds	18
Notes to Financial Statements	19-43
Required Supplementary Information	
General Fund	46
Schedule of the District's Proportionate Share of the Net Pension Liability	47
Schedule of the District Contributions	48
Notes to the Required Supplementary Information	49
Other Supplementary Information	
General Fund	
Budgetary Comparison Schedule – Revenues	54
Budgetary Comparison Schedule – Expenditures	56-58
Nonmajor Governmental Fund	
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	60
Budgetary Comparison Schedule – Food Service Fund	61
Budgetary Comparison Schedule – Building Fund	62
Debt Service Fund	
Budgetary Comparison Schedule – Bond Redemption Fund	64

## Table of Contents

	<u>Page</u>
Fiduciary Fund Types	
Combining Statement of Assets and Liabilities – Agency Funds	66
Combining Schedule of Additions, Deductions and Changes in Fund Liabilities – Agency Funds	67
Budgetary Comparison Schedule – Scholarship Agency Fund	68
Budgetary Comparison Schedule – Pupil Activity Agency Fund	69
Colorado Department of Education Supplementary Schedule	
Independent Auditors' Report on Auditors' Integrity Report	73
Auditors' Integrity Report	74



## **Independent Auditors' Report**

Board of Education  
Washington County School District R-3  
Otis, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Washington County School District R-3 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, 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.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado  
October 7, 2016

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Management Discussion and Analysis**  
**For Fiscal Year Ended June 30, 2016**

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This section of Washington County School District R-3's annual financial report presents its discussion and analysis of the District's financial performance during the year ended June 30, 2016.

**Financial Highlights**

- The assets of Otis School District R-3 exceeded its liabilities at the close of the most recent fiscal year by \$16,110,328 (net position).
- The district's total net position decreased by \$262,228.
- General revenues accounted for \$2,910,359 or 88% of the \$3,321,624 in total revenues. Program specific revenues in the form of charges for services, sales, and grants accounted for \$411,265 or 12% of revenues.
- The general fund ending fund balance reached \$875,880, an increase of \$242,956 from last year.

**Overview of Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. A comparison to the prior year's activity is normally provided in the document. The basic financial statements consist of four components: 1) government-wide financial statements, 2) fund financial statements and, 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Government-wide Statements**

The Government-wide financial statements are designed to provide readers with information about the School District as a whole using accounting methods similar to those used by private-sector businesses.

The statement of net position includes all of the School 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 School 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 change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). In the government-wide financial statements, the School District's activities include the following:

- **Governmental activities:** Most of the School District's basic services are included here, such as instruction, transportation, maintenance and operations, and administration. Taxes and intergovernmental revenues principally support these activities.

## **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 fund financial statements provide more detailed information about the School District's operations, focusing on the most significant or "major" funds, not the School District as a whole. The School District has two kinds of funds: governmental funds and fiduciary funds.

## **Governmental Funds**

Most of the District's basic services are included in the governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School District's program.

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

The School District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and change in fund balances for the General Fund, Bond Redemption Fund and Building Fund, which are considered to be major funds. Individual fund data for the nonmajor, other governmental fund is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

## **Fiduciary Funds**

Fiduciary funds are used to count for resources held for the benefit of parties outside the school district. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 18 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 may be found on pages 19-43 of this report.

## Other information

In addition to the basic financial statements, this report also presents other supplementary information concerning the School District's annual appropriated budgets with comparison statements that demonstrate compliance with budgets. Budgeted amounts may be found on pages 46-69.

## Financial Analysis of the School District as a Whole

As noted earlier, net position may serve over time as a useful indicator of the School District's financial position.

94% of the School District's assets are capital assets (e.g., land, buildings and equipment). The school District uses these assets to provide instruction and related services to its students.

The following table provides a summary of the district's net position as of June 30, 2016.

	Governmental Activities		Total Percentage Change 2015-2016
	2016	2015	
Current and Other assets	\$ 1,386,008	\$ 1,486,963	-6.79%
Capital assets	21,830,462	22,234,629	-1.82%
<b>Total assets</b>	<b>23,216,470</b>	<b>23,725,592</b>	<b>-2.15%</b>
Deferred outflows of resources	677,274	338,041	100.35%
<b>Total assets and deferred outflows of resources</b>	<b>\$23,893,744</b>	<b>\$24,063,633</b>	<b>-.71%</b>
Long term liabilities	\$ 7,455,663	\$ 7,072,892	5.41%
Other liabilities	242,603	617,960	-60.74%
<b>Total liabilities</b>	<b>7,698,266</b>	<b>7,690,798</b>	<b>.10%</b>
Deferred inflows of resources	85,150	279	30,419.71%
Net investment in capital assets	19,239,085	19,511,186	-1.39%
Restricted	442,086	652,248	-32.22%
Unrestricted	(3,570,843)	(3,790,878)	-5.80%
<b>Total net position</b>	<b>16,110,328</b>	<b>16,372,556</b>	<b>-1.60%</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$23,893,744</b>	<b>\$24,063,633</b>	<b>-.71%</b>

Following is a summary of the School District's change in net position.

Revenues	Governmental Activities		Total Percentage Change 2015-2016
	2016	2015	
<b>Revenues</b>			
Program Revenues			
Charges for services	\$ 44,527	\$ 28,838	54.40%
Operating Grants & Contributions	243,243	184,948	31.35%
Capital Grants	123,495	7,788,848	-98.41%
Property taxes	767,952	717,141	7.09%
State equalization	1,954,895	1,808,759	8.08%
Other	185,473	174,115	6.52%
<b>Total Revenue</b>	<b>3,321,624</b>	<b>10,702,649</b>	<b>-68.97%</b>
<b>Expenses</b>			
Instruction	1,771,918	1,620,198	9.36%
Pupil & Instructional Services	190,243	173,547	9.62%
Administration & Business	346,565	379,209	-8.61%
Maintenance & Operations	303,223	301,253	.65%
Transportation	195,713	145,393	34.61%
Other	776,190	558,641	38.94%
<b>Total Expenses</b>	<b>3,583,852</b>	<b>3,178,241</b>	<b>12.76%</b>
<b>Change in net position</b>	<b>\$ (262,228)</b>	<b>\$ 8,848,148</b>	<b>-102.96%</b>

### Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994, as amended (SFA). Under the SFA the School District received \$11,272 per funded student. In fiscal year 2015-16 the funded pupil count was 221.2. Funding for the SFA comes from property taxes, specific ownership tax and state equalization. The School District receives approximately 71 percent of this funding from state equalization while the remaining amount comes from property taxes and specific ownership tax. The School District's assessed valuation generated \$479,767 in property taxes for fiscal year 2015-2016.

### Governmental Funds

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

At the end of the fiscal year, the School District's governmental funds reported combined ending fund balances of \$1,117,185, an increase of \$253,177.

## General Fund Budget Highlights

The District's budget is prepared according to Colorado law and is based on accounting for transactions under generally accepted accounting principles. The most significant budgeted fund is the General Fund.

The District enrollment has remained steady this year after a significant increase last year and equalization funding should remain steady in the next year. The district was able to purchase much needed curriculums for elementary Reading, as well as high school Science, Math, Foreign Language and Language Arts. School employees received one step and will receive a longevity bonus in December.

The District over the course of the last year has kept purchase orders to a minimum and has been able to rebuild the beginning fund balance. It is the District's intention to continue to keep expenditures reasonable and to continue building the beginning fund balance.

Food Service is now minimally subsidized by the general fund. There is a charge for seconds and A La Carte items are available for purchase. Federal guidelines make it difficult to keep cost per plate to a minimum.

The district saw increased expenditures in special education due to increased case load. The increase included training, supplies, and especially additional personnel salary costs.

## Capital Assets and Debt Administration

### Capital Assets

The School Districts investment in capital assets for its governmental and business type activities as of June 30, 2016 amounts to \$21,830,462 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, and capital leases all with an original cost greater than \$5,000.

Capital additions during the year included the final additions to the new school building.

The School District's total capital assets at June 30, 2016 net of accumulated depreciation were as follows:

	Governmental Activities
Land	\$ 23,856
Building Improvements	21,497,197
Equipment & Furniture	172,796
Vehicles	136,613
Total Capital Assets	<u>\$ 21,830,462</u>

Additional information on the School District's capital assets can be found in note E to the basic financial statements.

## Long-Term Debt

At year-end, the School District's long-term debt of \$7,455,663 consisted of the following.

	Governmental Activities
Bonds Payable	\$ 2,482,832
Capital Lease Obligation	108,545
CDE Repayment	16,336
Net Pension Liability	4,847,950
Total	<u>\$ 7,455,663</u>

Additional information on the School District's long-term debt can be found in note G to the basic financial statements.

## Economic Factors

- Health insurance premiums continue rise and the district saw an increase of about \$35 per employee per month for the FY17 period.
- Energy costs especially electricity have increased in the new more energy efficient school building.
- The state economic forecast for FY17 is slowing according to CDE representatives but is stronger than the national economic trend.
- The negative factor continues to take funding away from schools.
- Enrollment has remained steady.

## Contacting the Districts Financial Management

This financial report is designed to provide the District's citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the district's accountability for the money it receives. If you have any questions about this report or need additional information, contact Washington County School District R-3, 518 Dungan Street, Otis, CO 80743.

## **Basic Financial Statements**

The basic financial statements of the District include the following:

*Government-wide financial statements.* The government-wide statements display information about the reporting government as a whole, except for its fiduciary activities.

*Fund financial statements.* The fund financial statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

*Notes to the financial statements.* The notes communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,095,152
Cash with fiscal agent	226,180
Receivables	56,814
Inventory	7,862
Capital assets, net of depreciation	<u>21,830,462</u>
Total assets	23,216,470
Deferred outflows of resources	
Pension deferrals	<u>677,274</u>
Total assets and deferred outflows of resources	<u><u>\$ 23,893,744</u></u>
Liabilities	
Accounts payable	\$ 15,497
Accrued salaries and benefits	218,788
Accrued interest payable	8,318
Noncurrent liabilities	
Due within one year	149,887
Due in more than one year	<u>7,305,776</u>
Total liabilities	7,698,266
Deferred inflows of resources	
Pension deferrals	85,150
Net position	
Net investment in capital assets	19,239,085
Restricted for:	
Emergencies	91,000
Colorado preschool program	74,403
BEST capital renewal reserve	43,240
Debt service	221,582
Food service operations	11,861
Unrestricted	<u>(3,570,843)</u>
Total net position	<u>16,110,328</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 23,893,744</u></u>

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

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**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Instruction	\$ 1,771,918	\$ 13,669	\$ 147,785	
Supporting services				
Students	138,546		2,853	
Instructional staff	51,697		6,868	
General administration	166,665			
School administration	98,026			
Business services	81,874			
Operations and maintenance	303,223			
Student transportation	195,713		26,282	
Central support services	85,535			
Food service operations	123,462	30,858	59,455	
Facilities acquisition				\$ 123,495
Unallocated depreciation *	487,261			
Interest and fiscal charges	79,932			
Total governmental activities	<u>\$ 3,583,852</u>	<u>\$ 44,527</u>	<u>\$ 243,243</u>	<u>\$ 123,495</u>

\* This amount excludes depreciation that is included in the direct expenses of the various programs.

General revenues
Taxes
Property taxes, levied for general purposes
Property taxes, levied for debt service
Specific ownership taxes
Delinquent taxes and interest
State categorical aid
Earnings on investments
Other
Total general revenues
Change in net position
Net position at beginning of year
Net position at end of year

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

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Net (Expenses)  
Revenues and  
Changes in  
Net Position

Total  
Governmental  
Activities

\$ (1,610,464)

(135,693)

(44,829)

(166,665)

(98,026)

(81,874)

(303,223)

(169,431)

(85,535)

(33,149)

123,495

(487,261)

(79,932)

(3,172,587)

479,767

204,436

81,499

2,250

1,954,895

2,039

185,473

2,910,359

(262,228)

16,372,556

\$ 16,110,328

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	General Fund	Bond Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 1,076,871		\$ 18,281	\$ 1,095,152
Cash with fiscal agent	10,443	\$ 215,737		226,180
Property taxes receivable	36,503	15,555		52,058
Due from other funds			211	211
Other receivables	4,756			4,756
Inventories			7,862	7,862
<b>Total assets</b>	<b>\$ 1,128,573</b>	<b>\$ 231,292</b>	<b>\$ 26,354</b>	<b>\$ 1,386,219</b>
<b>Liabilities</b>				
Accounts payable	\$ 15,497			\$ 15,497
Due to other funds	211			211
Accrued salaries and benefits	212,157		\$ 6,631	218,788
<b>Total liabilities</b>	<b>227,865</b>	<b>\$ -</b>	<b>6,631</b>	<b>234,496</b>
<b>Deferred inflows of resources</b>				
Deferred property tax revenues	24,828	9,710		34,538
<b>Total deferred inflows of resources</b>	<b>24,828</b>	<b>9,710</b>	<b>-</b>	<b>34,538</b>
<b>Fund balance</b>				
Nonspendable inventories			7,862	7,862
Restricted for:				
Emergencies	91,000			91,000
Colorado preschool program	74,403			74,403
BEST capital renewal reserve	43,240			43,240
Debt service		221,582		221,582
Food service operations			11,861	11,861
Assigned to:				
Capital projects	75,717			75,717
Risk management	2,986			2,986
Unassigned	588,534			588,534
<b>Total fund balance</b>	<b>875,880</b>	<b>221,582</b>	<b>19,723</b>	<b>1,117,185</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 1,128,573</b>	<b>\$ 231,292</b>	<b>\$ 26,354</b>	<b>\$ 1,386,219</b>

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2016**

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

Total fund balance - governmental funds	\$ 1,117,185
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	21,830,462
Certain receivables will be collected in the next fiscal year, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unearned revenue in the funds.	34,538
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds.	(8,318)
Long-term liabilities and related deferred outflows and inflows of resources, including bonds payable, capital lease obligations, payments to the Colorado Department of Education and net pension liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(6,863,539)</u>
Net position of the governmental activities	<u><u>\$ 16,110,328</u></u>

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	General Fund	Bond Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 746,659	\$ 199,442	\$ 33,258	\$ 979,359
Intermediate sources	229			229
State sources	2,109,761		125,408	2,235,169
Federal sources	19,121		57,542	76,663
<b>Total revenues</b>	<b>2,875,770</b>	<b>199,442</b>	<b>216,208</b>	<b>3,291,420</b>
<b>Expenditures</b>				
Instruction	1,598,495			1,598,495
Supporting services	995,306		104,181	1,099,487
Capital outlay			123,495	123,495
Debt service				
Principal retirement	25,358	110,708		136,066
Interest and fiscal charges	3,655	77,045		80,700
<b>Total expenditures</b>	<b>2,622,814</b>	<b>187,753</b>	<b>227,676</b>	<b>3,038,243</b>
<b>Excess of revenues over (under) expenditures</b>	<b>252,956</b>	<b>11,689</b>	<b>(11,468)</b>	<b>253,177</b>
<b>Other financing source (uses)</b>				
Transfers in			10,000	10,000
Transfers out	(10,000)			(10,000)
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>-</b>	<b>10,000</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>242,956</b>	<b>11,689</b>	<b>(1,468)</b>	<b>253,177</b>
Fund balance at beginning of year	632,924	209,893	21,191	864,008
Fund balance at end of year	<u>\$ 875,880</u>	<u>\$ 221,582</u>	<u>\$ 19,723</u>	<u>\$ 1,117,185</u>

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2016**

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

Net change in fund balances - governmental funds	\$ 253,177
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeded capital outlays in the current period.	(408,167)
Because some property taxes will not be collected for several months after the fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are however, recorded as revenues in the statement of activities.	20,403
In the statement of activities, certain expenses related to the pension liabilities and related deferred outflows and inflows, repayments to the Colorado Department of Education and accrued interest payable - are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.)	(273,508)
Repayment of principal on general obligation bonds and capital lease obligations are an expenditure in the governmental funds, but the repayment reduces the long-term debt liability in the statement of net position.	<u>145,867</u>
Change in net position of governmental activities	<u>\$ (262,228)</u>

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

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	<u>Agency Funds</u>
Assets	
Cash	\$ 112,497
Total assets	<u>\$ 112,497</u>
Liabilities	
Due to scholarship recipients	\$ 82,081
Due to student groups	<u>30,416</u>
Total liabilities	<u>\$ 112,497</u>

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies**

This summary of the Washington County School District R-3's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the District's accounting policies are described below.

**A.1 – Reporting entity**

The Washington County School District R-3 is a school district governed by an elected five-member board of education. The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

The District has examined other entities that could be included as defined in number 2 and 3 above. Based on these criteria, the District has no component units.

**A.2 – Fund accounting**

The District uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The District does not have any proprietary funds.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked funds (special revenue funds), and the servicing of general long-term debt (debt service fund). The following are the District's major governmental funds:

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

General Fund – The General Fund is the operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include local property taxes, specific ownership taxes, and State of Colorado equalization funding, as determined by the School Finance Act of 1994, as amended.

Expenditures include all costs associated with the daily operation of the schools, except for certain capital outlay expenditures, risk-related transactions, debt service, food service operations, scholarships and pupil activities.

Bond Redemption Fund – This fund is a debt service fund used to account for the revenues from a specific tax levy for the purpose of the repayment of debt principal, interest and other fiscal charges.

The following are the District's nonmajor governmental funds:

Building Fund – This fund is a capital projects fund used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Revenues and other financing sources are primarily derived from the issuance of debt or transfers from other funds. This fund was closed at the end of the year.

Food Service Fund – This fund is a special revenue fund used to account for the financial activities associated with the District's food service operations.

Fiduciary Funds focus on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District has the following fiduciary funds:

Scholarship Agency Fund – This fund is an agency fund used to account for resources held by the District in a fiduciary capacity for scholarships to be distributed to area students for post-secondary education.

Pupil Activity Agency Fund – This fund is an agency fund used to record transactions related to school-sponsored pupil organizations and activities.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

**Note A.3 – Basis of presentation**

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources management focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balance, which reports the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

Fiduciary funds focus on net position and changes in net position and are reported using accounting principles similar to proprietary funds. The District's fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address the activities or obligations of the District, these funds are not incorporated into the government-wide financial statements.

**A.4 – Basis of accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions – Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. State equalization monies are recognized as revenues during the period in which they are appropriated. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes collected within sixty days after year-end, interest, tuition, grants and student fees.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

Deferred outflows/inflows of resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Unearned revenue - Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Expenditures - The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**A.5 – Encumbrances**

Encumbrance accounting is utilized by the District to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end are canceled and reappropriated in the ensuing year’s budget.

**A.6 – Short-term interfund receivables/payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as internal balances on the government-wide statement of net position, and are classified as due from other funds or due to other funds on the balance sheet.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

**A.7 – Inventories**

Food Service Fund – purchased inventories are stated at cost as determined by the first-in, first-out method. Commodity inventories are stated at the United States Department of Agriculture’s assigned values, which approximate fair value, at the date of receipt. Expenditures for food items are recorded when consumed. The federal government donates surplus commodities to the national school lunch program. Commodity distributions used by the District are recorded as revenues at the date of their consumption.

**A.8 – Capital assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets with a unit cost greater than \$5,000 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Infrastructure assets, consisting of certain improvements other than buildings (such as parking facilities, sidewalks, landscaping and lighting systems) are capitalized along with other capital assets. Improvements to assets are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not.

All reported capital assets are depreciated with the exception of land costs. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u>
Buildings and improvements	20-50 years
Furniture and equipment	5-25 years
Licensed vehicles	7-10 years

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

**A.9 – Compensated absences**

Certain personnel and full-time employees receive seven or ten day's sick leave each year, which can be accumulated as long as the employee is with the District. After twenty years of service and upon retirement, the District will pay the certified personnel for thirty unused sick days at the current substitute rate.

No liability is shown in the financial statements due to the immateriality of the amount involved.

**A.10 – Accrued liabilities and long-term obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds payable and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**A.11 – Fund balance**

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

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

*Nonspendable*, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned),

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

*Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the board of education (the District's highest level of decision-making authority),

*Assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

*Unassigned* fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

Committed fund balance is established by a formal passage of a resolution. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the board of education through adoption or amendment of the budget as intended for specific purpose (such as purchase of fixed assets, construction, debt service or for other purposes).

When both restricted and unrestricted resources are available in governmental funds, the District applies expenditures against restricted fund balance first, and followed by committed fund balance, assigned fund balance and unassigned fund balance.

**A.12 – Net position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (Continued)**

**A.13 – Interfund transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. In general, the effect of interfund activity has been eliminated from the government-wide financial statements.

**A.14 – Extraordinary and special items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the board of education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year.

**Note B – Cash and investments**

**Cash and deposits**

Colorado State statutes govern the District's deposit of cash. The Public Deposit Protection Acts (PDPA) for banks and savings and loans require state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The fair value of the assets in the pool must be at least equal to 102% of the aggregate uninsured deposits.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, the District had total deposits of \$1,228,737, of which \$250,000 was insured and \$978,737 was collateralized with securities held by the pledging institution's trust department or agent in the District's name.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note B – Cash and investments (Continued)**

**Investments**

Authorized investments - Investment policies are governed by Colorado State Statutes and the District's own investment policies and procedures. Investments of the District may include:

- Obligations of the U.S. Government such as treasury bills, notes and bonds
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

Interest rate risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing rates.

Credit risk – State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the highest rating from at least one nationally recognized rating agency at the time of purchase. The District has no investment policy that would further limit its investment choices. At year-end, the District's investment in treasury bonds are rated AAA by Standard and Poor's.

The following table provides a reconciliation of cash and investments on the statement of net position:

Cash in bank	\$ 1,207,649
Cash with fiscal agent	<u>226,180</u>
Total	<u>\$ 1,433,829</u>
 <u>Statement of net position</u>	
Cash	\$ 1,095,152
Cash with fiscal agent	<u>226,180</u>
Subtotal	1,321,332
 <u>Statement of fiduciary net position</u>	
Cash	<u>112,497</u>
Total	<u>\$ 1,433,829</u>

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note C – Receivables**

Receivables at year-end consist of the following:

	<u>Governmental Receivables</u>
Property taxes receivable	\$ 52,058
Other receivables	<u>4,756</u>
Total	<u>\$ 56,814</u>

Property taxes are levied on December 15<sup>th</sup> and attach as a lien on property the following January 1<sup>st</sup>. They are payable in full by April 30<sup>th</sup> or are due in two equal installments on February 28<sup>th</sup> and April 15<sup>th</sup>. Washington County bills and collects property taxes for all taxing entities within the County. The tax receipts collected by the county are remitted to the District in the subsequent month.

**Note D – Interfund transactions**

The following is a summary of interfund borrowings and transfers for the year as presented in the fund financial statements:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Governmental funds</u>		
General fund	\$ -	\$ 211
Other governmental fund	<u>211</u>	<u>-</u>
Total	<u>\$ 211</u>	<u>\$ 211</u>

All balances resulted from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental funds</u>		
General fund	\$ -	\$ 10,000
Other governmental fund	<u>10,000</u>	<u>-</u>
Total	<u>\$ 10,000</u>	<u>\$ 10,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. During the year, the District transferred funds in the amount of \$10,000 from the General Fund to the Other Governmental Fund to subsidize the costs of maintaining the District's food service operations.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note E – Capital assets**

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 23,856	\$ -	\$ -	\$ 23,856
Total capital assets, not being depreciated	23,856	-	-	23,856
Capital assets, being depreciated:				
Buildings and improvements	23,963,478	123,495	(117,421)	23,969,552
Furniture and equipment	249,398	-	117,421	366,819
Licensed vehicles	<u>609,273</u>	<u>-</u>	<u>-</u>	<u>609,273</u>
Total capital assets, being depreciated	<u>24,822,149</u>	<u>123,495</u>	<u>-</u>	<u>24,945,644</u>
Total capital assets	24,846,005	123,495	-	24,969,500
Less accumulated depreciation for:				
Buildings and improvements	(1,990,920)	(482,609)	1,174	(2,472,355)
Furniture and equipment	(167,756)	(25,093)	(1,174)	(194,023)
Licensed vehicles	<u>(448,700)</u>	<u>(23,960)</u>	<u>-</u>	<u>(472,660)</u>
Total accumulated depreciation	<u>(2,607,376)</u>	<u>(531,662)</u>	<u>-</u>	<u>(3,139,038)</u>
Governmental activities capital assets, net	<u>\$ 22,238,629</u>	<u>\$ (408,167)</u>	<u>\$ -</u>	<u>\$ 21,830,462</u>

Depreciation expense was charged to programs of the District as follows:

Governmental activities	
Business services	\$ 6,748
Operations and maintenance	1,148
Student transportation	23,960
Food service operations	12,545
Unallocated	<u>487,261</u>
Total depreciation expense	<u>\$ 531,662</u>

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note F – Accrued salaries and benefits**

Salaries and benefits of certain contractually employed personnel are paid over a twelve-month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned but not paid at year-end are estimated to be \$218,788. Accordingly, this accrued compensation is reflected as a liability in the accompanying financial statements.

**Note G – Long-term debt**

The following is a summary of the changes in long-term debt for the year:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within one year</u>
<b>Governmental activities</b>					
Bonds payable	\$ 2,593,540	\$ -	\$ (110,708)	\$ 2,482,832	\$ 114,036
Capital lease obligation	133,903	-	(25,358)	108,545	26,050
CDE repayment	26,137	-	(9,801)	16,336	9,801
Net pension liability	<u>4,319,312</u>	<u>528,638</u>	<u>-</u>	<u>4,847,950</u>	<u>-</u>
Total	<u>\$ 7,072,892</u>	<u>\$ 528,638</u>	<u>\$ (145,867)</u>	<u>\$ 7,455,663</u>	<u>\$ 149,887</u>

Payments on the general obligation bonds are made in the Bond Redemption Fund, while payments on the capital lease obligation and repayment to the Colorado Department of Education are made in the Capital Reserve Fund and General Fund, respectively. The net pension liability attributable to the governmental activities will be liquidated primarily by the General Fund.

**Bonds Payable**

\$2,806,495 general obligation bonds, dated November 27, 2012, due in annual installments beginning in fiscal year 2013 ranging from \$105,478 to \$183,161; fixed annual interest rate of 3.01% payable semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup>.

\$ 2,482,832

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note G – Long-term debt (Continued)**

The following schedule represents the District’s debt service requirements to maturity for the outstanding bonded debt at year-end:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 114,036	\$ 72,918	\$ 186,954
2018	117,464	69,438	186,902
2019	120,994	65,854	186,848
2020	124,631	62,163	186,794
2021	128,378	58,360	186,738
2022-2026	702,143	230,638	932,781
2027-2031	814,209	116,888	931,097
2032-2033	<u>360,977</u>	<u>10,931</u>	<u>371,908</u>
Totals	<u>\$ 2,482,832</u>	<u>\$ 687,190</u>	<u>\$ 3,170,022</u>

**Capital lease obligation**

Transportation vehicle lease obligation – In September 2013, the District entered into an agreement with De Lage Landen Public Finance LLC to purchase two Blue Bird school buses. The agreement called for a lease term of seven years with annual renewal options. Annual payments of \$29,013 are due on October 15<sup>th</sup> of each year, with a final payment due in 2019. The average interest rate over the lease term is 2.73%. The District has capitalized \$187,600 of assets under this capital lease.

The following is a schedule by years of future minimum lease payments under the capital leases above, together with the present value of the net minimum lease payments at year-end:

<u>Year ended June 30,</u>	<u>Debt service requirement</u>
2017	\$ 29,013
2018	29,013
2019	29,013
2020	<u>29,013</u>
Total minimum lease payments	116,052
Less amount representing interest	<u>7,507</u>
Present value of future net minimum lease payments	<u>\$ 108,545</u>

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note G – Long-term debt (Continued)**

**Colorado Department of Education repayments**

On November 6, 2013 the District received the results of an audit for fiscal years 2009 through 2013, which resulted in an amount due and payable to the Colorado Department of Education of \$38,389. In accordance with Colorado Revised Statutes 22-2-113(II)(A)&(B), audits that begin on or after July 1, 2007 shall not recover an interest fee for the period that is equal to the number of years and any fraction of a year between the settlement date of the current audit and the settlement date of the proceeding audit. The District is making monthly payments of \$817 with a final payment due in February 2018.

**Note H – Defined benefit pension plan**

Summary of significant accounting policies

*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.

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

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note H – 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.

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

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note H – Defined benefit pension plan (Continued)**

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

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

*Contributions.* Eligible employees and the District are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. Section 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, <u>2015</u>	For the Year Ended December 31, <u>2016</u>
Employer contribution rate	10.15%	10.15%
Amount of employer contribution apportioned to the health care trust fund as specified in C.R.S. Section 24-51-208(1)(f)	<u>(1.02)%</u>	<u>(1.02)%</u>
Amount apportioned to the SCHDTF	9.13%	9.13%
Amortization equalization disbursement (AED) as specified in C.R.S. Section 24-51-411	4.20%	4.50%
Supplemental amortization equalization disbursement (SAED) as specified in C.R.S. Section 24-51-411	<u>4.00%</u>	<u>4.50%</u>
Total employer contribution rate to the SCHDTF	<u><u>17.33%</u></u>	<u><u>18.13%</u></u>

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 \$262,791 for the year ended.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note H – Defined benefit pension plan (Continued)**

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At year-end, the District reported a liability of \$4,847,950 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on the District's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the District's proportion was 0.0317 percent, which was a decrease of 0.0002 percent from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$537,067. At year-end, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 64,017	\$ 202
Changes of assumptions or other inputs	-	68,511
Net difference between projected and actual earnings on pension plan investments	412,213	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	64,496	16,437
Contributions subsequent to the measurement date	<u>136,548</u>	<u>-</u>
Total	<u>\$ 677,274</u>	<u>\$ 85,150</u>

\$136,548 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 subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note H – Defined benefit pension plan (Continued)**

Year Ended June 30,	Amount
2017	\$ 139,120
2018	127,774
2019	104,153
2020	<u>84,529</u>
Totals	<u>\$ 455,576</u>

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

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06; (ad hoc, substantively automatic)	financed by the annual increase reserve

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

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

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

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

**Note H – Defined benefit pension plan (Continued)**

- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. equity – large cap	26.76%	5.00%
U.S. equity – small cap	4.40%	5.19%
Non U.S. equity – developed	22.06%	5.29%
Non U.S. equity – emerging	6.24%	6.76%
Core fixed income	24.05%	0.98%
High yield	1.53%	2.64%
Long duration government credit	0.53%	1.57%
Emerging market bonds	0.43%	3.04%
Real estate	7.00%	5.09%
Private equity	7.00%	7.15%
 Total	 <u>100.00%</u>	

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note H – Defined benefit pension plan (Continued)**

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 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 projects 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 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimate future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note H – Defined benefit pension plan (Continued)**

determination process (i.e., the plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SCHDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the net pension liability	<u>\$ 6,284,360</u>	<u>\$ 4,847,950</u>	<u>\$ 3,653,125</u>

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

Payables to the pension plan

The District did not report any payables to the pension plan at year-end.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note I – Defined contribution pension plan**

Voluntary Investment Program

*Plan description.* Employees of the District that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report of the Plan. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Funding policy.* The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The District does not offer matching contributions to its employees. Employees are immediately vested in their own contributions and investment earnings. For the year, program members contributed \$2,640 and the District recognized pension expense and a liability of \$3,300 and \$0, respectively, for the Voluntary Investment Program.

**Note J – Other postemployment benefits**

Health Care Trust Fund

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

*Funding policy.* The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the fiscal years ended June 30, 2016, 2015 and 2014, the District's contributions to the HCTF were \$14,290, \$13,901 and \$13,206, respectively, equal to their required contributions for each year.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note K – Risk management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Colorado School Districts Self-Insurance Pool (the Pool). The Pool's objectives are to provide member school districts defined property and liability coverages through self-insurance and excess insurance purchased from commercial companies. The District pays an annual contribution to the Pool for its insurance coverages. The District's contribution for the year was \$52,418. The District continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage or the deductible in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

**Note L – Commitments and contingencies**

Federal and state funding

The District receives revenues from various federal and state grant programs which are subject to final review and approval by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

TABOR Amendment

In November 1992, Colorado voters passed an amendment, commonly known as the Taxpayer's Bill of Rights (TABOR), to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in student enrollment. Fiscal year spending as defined by the amendment excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the District under specified voting requirements by the entire electorate. On November 1, 1998, the voters of the District approved a ballot initiative permitting the District to retain, appropriate, and utilize, by retention for reserve, carryover fund balance, or expenditure, the full proceeds and revenues received from every source whatsoever, without limitation, in this fiscal year and all subsequent fiscal years notwithstanding any limitation of Article X, Section 20 of the Colorado Constitution. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR's language in order to determine its compliance. The District has reserved funds in the General Fund in the amount of \$91,000 for the emergency reserve.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to Financial Statements**

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**Note L – Commitments and contingencies (Continued)**

Budget law

Expenditures in the Food Service Fund and Pupil Activity Fund exceeded appropriations by \$2,693 and \$44,329, respectively, and may be in violation of Colorado Local Government Budget Laws.

**Note M – Joint Venture**

The District participates in the Northeast Colorado Board of Cooperative Educational Services (BOCES). This joint venture does not meet the criteria for inclusion within the reporting entity because the BOCES:

- is financially independent and responsible for its own financing deficits and entitled to its own surpluses,
- has a separate governing board from that of the District,
- has a separate management which is responsible for the day to day operations and is accountable to the separate board, governing board and management have the ability to significantly influence operations by approving budgetary requests and adjustments, signing contracts, hiring personnel, exercising control over facilities and determining the outcome or disposition of matters affecting the recipients of services provided, and
- has absolute authority over all funds and fiscal responsibility including budgetary responsibility and reporting to state agencies and controls fiscal management.

The District has one member on the board. This board has final authority for all budgeting and financing of the joint venture.

Separate financial statements of the Northeast Colorado Board of Educational Services are available by contacting their administrative office in Haxtun, Colorado.

For the year, the District's financial contribution was \$69,400.

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### **Required Supplementary Information**

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of the District's Proportionate Share of the Net Pension Liability
- Schedule of District Contributions
- Notes to the Required Supplementary Information

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**General Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 648,140	\$ 680,439	\$ 746,659	\$ 66,220
Intermediate sources	250	250	229	(21)
State sources	1,971,497	1,975,497	2,109,761	134,264
Federal sources	38,500	38,500	19,121	(19,379)
Total revenues	2,658,387	2,694,686	2,875,770	181,084
Expenditures				
Instruction	1,541,132	1,592,283	1,598,495	(6,212)
Supporting services	1,020,412	1,002,762	995,306	7,456
Debt service				
Principal retirement			25,358	(25,358)
Interest and fiscal charges			3,655	(3,655)
Appropriated reserves	824,603	830,901		830,901
Total expenditures	3,386,147	3,425,946	2,622,814	803,132
Excess of revenues over (under) expenditures	(727,760)	(731,260)	252,956	984,216
Other financing uses				
Transfers out	(20,000)	(20,000)	(10,000)	10,000
Net change in fund balance	\$ (747,760)	\$ (751,260)	242,956	\$ 994,216
Fund balance at beginning			632,924	
Fund balance at end of year			\$ 875,880	

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Schedule of the District's Proportionate Share of the Net Pension Liability <sup>1</sup>**  
**June 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.0316977669%	0.0318689380%
District's proportionate share of the net pension liability	\$ 4,847,950	\$ 4,319,312
District's covered-employee payroll	\$ 1,401,018	\$ 1,362,818
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	346.03%	316.94%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.84%

<sup>1</sup> Information is not available prior to the current year. In future reports, additional years will be added until 10 years of historical data are presented.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Schedule of District Contributions <sup>1</sup>**  
**June 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 262,791	\$ 244,401
Contributions in relation to the contractually required contribution	<u>(262,791)</u>	<u>(244,401)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,401,018	\$ 1,362,818
Contributions as a percentage of covered-employee payroll	18.76%	17.93%

<sup>1</sup> Information is not available prior to the current year. In future reports, additional years will be added until 10 years of historical data are presented.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Notes to the Required Supplementary Information**

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**Note A – Budgetary data**

The District adheres to the following procedures in compliance with Colorado Revised Statutes, establishing the budgetary data in the financial statements:

1. Budgets are required by state law for all funds. Prior to May 31, the superintendent of schools submits to the board of education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the board of education to obtain taxpayer comments.
3. Prior to June 30, the budget is adopted by formal resolution.
4. Prior to January 31, the board of education submits its adopted annual budget to the department of education.
5. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between departments within any fund and reallocation of budget line items within any department in the General Fund rests with the superintendent of schools. Revisions that alter the total expenditures of any fund must be approved by the board of education.
6. Budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the board of education throughout the year. After budget approval, the District board of education may approve supplemental appropriations if an occurrence, condition, or need exists which was not known at the time the budget was adopted. Supplemental appropriations were made during the year.
8. Appropriations lapse at year-end.

**Note B – Factors affecting trends in amounts reported in the pension schedules**

Information about factors that significantly affect trends in the amounts reported in the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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### **Other Supplementary Information**

Other supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

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## **General Fund**

The General Fund accounts for all transactions of the District not required to be accounted for in other funds. This fund represents an accounting of the District's ordinary operations financed primarily from property and specific ownership taxes and state aid. It is the most significant fund in relation to the District's overall operations. The schedules of revenues and expenditures are included to provide a greater level of detail to the reader of the financial statements.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**General Fund**  
**Budgetary Comparison Schedule - Revenues**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Property taxes	\$ 444,711	\$ 444,711	\$ 465,460	\$ 20,749
Specific ownership taxes	62,199	62,199	81,499	19,300
Delinquent taxes and interest	1,000	1,000	1,529	529
Earnings on investments	720	720	1,643	923
Other local revenue	139,510	171,809	196,528	24,719
Total local sources	648,140	680,439	746,659	66,220
Intermediate sources	250	250	229	(21)
State sources				
Equalization	1,850,302	1,850,302	1,954,895	104,593
Vocational education	11,000	11,000	18,661	7,661
ELPA professional development			387	387
English language proficiency			260	260
Transportation	22,000	22,000	16,481	(5,519)
READ Act		7,000	12,682	5,682
State grants to libraries	3,000		3,500	3,500
Small rural schools funding	52,595	52,595	58,055	5,460
Additional at-risk funding			1,481	1,481
Services within the BOCES	32,600	32,600	43,359	10,759
Total state sources	1,971,497	1,975,497	2,109,761	134,264
Federal sources				
REAP	19,500	19,500		(19,500)
Services within the BOCES	19,000	19,000	19,121	121
Total federal sources	38,500	38,500	19,121	(19,379)
Total revenues	\$ 2,658,387	\$ 2,694,686	\$ 2,875,770	\$ 181,084

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**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**General Fund**  
**Budgetary Comparison Schedule - Expenditures**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Expenditures</b>				
<b>Instruction</b>				
Salaries	\$ 906,798	\$ 908,840	\$ 931,915	\$ (23,075)
Employee benefits	339,069	339,069	318,219	20,850
Purchased services	183,260	190,160	191,338	(1,178)
Supplies and materials	99,700	142,409	144,118	(1,709)
Property	2,005	2,005	1,377	628
Other	10,300	9,800	11,528	(1,728)
<b>Total instruction</b>	<b>1,541,132</b>	<b>1,592,283</b>	<b>1,598,495</b>	<b>(6,212)</b>
<b>Supporting services</b>				
<b>Students</b>				
Salaries	83,826	83,826	91,616	(7,790)
Employee benefits	31,854	31,854	27,270	4,584
Supplies and materials	550	550	2,611	(2,061)
<b>Total students</b>	<b>116,230</b>	<b>116,230</b>	<b>121,497</b>	<b>(5,267)</b>
<b>Instructional staff</b>				
Salaries	20,600	20,600	21,112	(512)
Employee benefits	7,313	7,313	11,350	(4,037)
Purchased services	5,000	5,000	12,318	(7,318)
Supplies and materials	3,750	3,750	2,988	762
<b>Total instructional staff</b>	<b>36,663</b>	<b>36,663</b>	<b>47,768</b>	<b>(11,105)</b>
<b>General administration</b>				
Salaries	90,000	90,000	90,050	(50)
Employee benefits	23,165	23,165	18,890	4,275
Purchased services	38,950	36,750	33,921	2,829
Supplies and materials	5,700	4,200	2,314	1,886
Other	4,600	4,600	4,732	(132)
<b>Total general administration</b>	<b>162,415</b>	<b>158,715</b>	<b>149,907</b>	<b>8,808</b>

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
School administration				
Salaries	56,650	56,650	61,671	(5,021)
Employee benefits	16,995	16,995	19,894	(2,899)
Purchased services	3,300	3,300	3,486	(186)
Supplies and materials	1,500	1,000	1,098	(98)
Other	750	750	400	350
Total school administration	79,195	78,695	86,549	(7,854)
Business services				
Salaries	40,999	40,999	41,368	(369)
Employee benefits	16,980	16,980	14,103	2,877
Purchased services	500	500	1,172	(672)
Property	46,850	46,850	5,712	41,138
Other			5,072	(5,072)
Total business services	105,329	105,329	67,427	37,902
Operations and maintenance				
Salaries	86,682	86,682	75,323	11,359
Employee benefits	33,789	33,789	26,462	7,327
Purchased services	78,150	78,150	67,280	10,870
Supplies and materials	111,500	100,000	118,993	(18,993)
Total operations and maintenance	310,121	298,621	288,058	10,563
Student transportation				
Salaries	49,008	49,008	72,321	(23,313)
Employee benefits	17,993	17,993	26,058	(8,065)
Purchased services	25,300	33,350	24,364	8,986
Supplies and materials	37,000	27,000	35,501	(8,501)
Property	5,000	5,000	51	4,949
Total student transportation	134,301	132,351	158,295	(25,944)

(continued)

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**General Fund**  
**Budgetary Comparison Schedule - Expenditures**  
**For the Year Ended June 30, 2016**

(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Central support services				
Salaries	51,858	51,858	52,285	(427)
Employee benefits	20,073	20,073	18,027	2,046
Purchased services	2,750	2,750	2,013	737
Supplies and materials	1,477	1,477	3,480	(2,003)
Total central support services	76,158	76,158	75,805	353
Total supporting services	1,020,412	1,002,762	995,306	7,456
Debt service				
Principal retirement			25,358	(25,358)
Interest and fiscal charges			3,655	(3,655)
Total debt service	-	-	29,013	(29,013)
Appropriated reserves	824,603	830,901		830,901
Total expenditures	<u>\$ 3,386,147</u>	<u>\$ 3,425,946</u>	<u>\$ 2,622,814</u>	<u>\$ 803,132</u>

## **Nonmajor Governmental Funds**

The District reports the following nonmajor special revenue fund:

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

- Food Service Fund – This fund is used to record financial transactions related to the District's food service operations.

Capital Projects Funds – These funds account for financial resources to be used for the acquisition or construction of major capital facilities.

- Building Fund – This fund is used to account for the proceeds of bond sales, revenues from other sources and expenditures for capital outlay for land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings, or initial, additional and replacement of equipment as authorized by the local board of education, as specified in the related bond issue.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2016**

	Food Service Fund	Building Fund	Totals
Revenues			
Local sources	\$ 33,258		\$ 33,258
State sources	1,913	\$ 123,495	125,408
Federal sources	57,542		57,542
Total revenues	92,713	123,495	216,208
Expenditures			
Supporting services	104,181		104,181
Capital outlay		123,495	123,495
Total expenditures	104,181	123,495	227,676
Excess of revenues over (under) expenditures	(11,468)	-	(11,468)
Other financing sources			
Transfers in	10,000		10,000
Net change in fund balances	(1,468)	-	(1,468)
Fund balance at beginning of year	21,191	-	21,191
Fund balance at end of year	\$ 19,723	\$ -	\$ 19,723

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Food Service Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 40,905	\$ 32,013	\$ 33,258	\$ 1,245
State sources	85	180	1,913	1,733
Federal sources	22,300	28,000	57,542	29,542
<b>Total revenues</b>	<b>63,290</b>	<b>60,193</b>	<b>92,713</b>	<b>32,520</b>
Food service operations				
Salaries and benefits	47,114	49,314	52,711	(3,397)
Purchased services	3,100	1,050	859	191
Supplies and materials	46,871	46,624	47,864	(1,240)
Property			2,747	(2,747)
Appropriated reserves	4,500	4,500		4,500
<b>Total expenditures</b>	<b>101,585</b>	<b>101,488</b>	<b>104,181</b>	<b>(2,693)</b>
Excess of revenues over (under) expenditures	(38,295)	(41,295)	(11,468)	29,827
Other financing sources				
Transfers in	20,000	23,000	10,000	(13,000)
<b>Net change in fund balance</b>	<b>\$ (18,295)</b>	<b>\$ (18,295)</b>	<b>(1,468)</b>	<b>\$ 16,827</b>
Fund balance at beginning of year			21,191	
Fund balance at end of year			\$ 19,723	

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Building Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources	\$ 700,000	\$ 700,000	\$ 123,495	\$ (576,505)
Total revenues	700,000	700,000	123,495	(576,505)
Expenditures				
Capital outlay				
Property	700,000	700,000	123,495	576,505
Total expenditures	700,000	700,000	123,495	576,505
Excess of revenues over expenditures	\$ -	\$ -	-	\$ -
Fund balance at beginning of year			-	
Fund balance at end of year			\$ -	

## **Budgetary Comparison Schedule – Bond Redemption Fund**

The District reports the following major debt service fund:

Debt Service Fund – These funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- Bond Redemption Fund – This fund is a debt service fund used to account for the revenues from a specific tax levy for the purpose of the repayment of debt principal, interest and other fiscal charges.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Bond Redemption Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 260,000	\$ 260,000	\$ 198,340	\$ (61,660)
Delinquent taxes and interest			721	721
Earnings on investments	150	150	381	231
Total revenues	260,150	260,150	199,442	(60,708)
Expenditures				
Debt service				
Principal retirement	175,000	175,000	110,708	64,292
Interest and fiscal charges	101,500	101,500	77,045	24,455
Appropriated reserves	252,623	252,623		252,623
Total expenditures	529,123	529,123	187,753	341,370
Excess of revenues over (under) expenditures	\$ (268,973)	\$ (268,973)	11,689	\$ 280,662
Fund balance at beginning of year			209,893	
Fund balance at end of year			\$ 221,582	

## **Budgetary Comparison Schedule – Fiduciary Funds**

These funds focus on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

Agency funds – These funds are used to report resources held by the District in a purely custodial capacity (assets equal liabilities). These funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

- Scholarship Agency Fund – This fund is an agency fund used to account for resources held by the District in a fiduciary capacity for scholarships to be distributed to area students for post-secondary education.
- Pupil Activity Agency Fund – This fund is an agency fund used to record transactions related to school-sponsored pupil organizations and activities.

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Combining Statement of Assets and Liabilities**  
**Agency Funds**  
**June 30, 2016**

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	<u>Scholarship Agency Fund</u>	<u>Pupil Activity Agency Fund</u>	<u>Total</u>
Assets			
Cash	\$ 82,081	\$ 30,416	\$ 112,497
Total assets	<u>\$ 82,081</u>	<u>\$ 30,416</u>	<u>\$ 112,497</u>
Liabilities			
Due to scholarship recipients	\$ 82,081		\$ 82,081
Due to student groups		\$ 30,416	30,416
Total liabilities	<u>\$ 82,081</u>	<u>\$ 30,416</u>	<u>\$ 112,497</u>

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Combining Schedule of Additions, Deductions and Changes in Fund Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2016**

	Scholarship Agency Fund	Pupil Activity Agency Fund	Total
Additions			
Contributions	\$ 7,486		\$ 7,486
Fundraising and other events		\$ 124,577	124,577
Earnings on investments	84		84
<b>Total additions</b>	<b>7,570</b>	<b>124,577</b>	<b>132,147</b>
Deductions			
Scholarship payments	12,550		12,550
Other	900		900
Pupil activity expenditures		125,502	125,502
<b>Total deductions</b>	<b>13,450</b>	<b>125,502</b>	<b>138,952</b>
<b>Excess of additions over (under) deductions</b>	<b>(5,880)</b>	<b>(925)</b>	<b>(6,805)</b>
Due to scholarship recipients/ student groups at beginning of year	87,961	31,341	119,302
<b>Due to scholarship recipients/ student groups at end of year</b>	<b>\$ 82,081</b>	<b>\$ 30,416</b>	<b>\$ 112,497</b>

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Scholarship Agency Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Additions				
Contributions	\$ 86,589	\$ 86,589	\$ 7,486	\$ (79,103)
Earnings on investments	1,000	1,000	84	(916)
Total additions	87,589	87,589	7,570	(80,019)
Deductions				
Scholarship payments	10,550	10,550	12,550	(2,000)
Other	1,000	500	900	(400)
Appropriated reserves	224,998	86,912		86,912
Total deductions	236,548	97,962	13,450	84,512
Excess of additions over (under) deductions	\$ (148,959)	\$ (10,373)	(5,880)	\$ 4,493
Due to scholarship recipients at beginning of year			87,961	
Due to scholarship recipients at end of year			\$ 82,081	

**WASHINGTON COUNTY SCHOOL DISTRICT R-3**  
**Pupil Activity Agency Fund**  
**Budget Comparison Schedule**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Additions				
Fundraising and other events	\$ 100,025	\$ 125,025	\$ 124,577	\$ (448)
Deductions				
Pupil activity expenditures	31,173	81,173	125,502	(44,329)
Appropriated reserves	100,000			-
Total deductions	<u>131,173</u>	<u>81,173</u>	<u>125,502</u>	<u>(44,329)</u>
Excess of additions over (under) deductions	<u>\$ (31,148)</u>	<u>\$ 43,852</u>	(925)	<u>\$ (44,777)</u>
Due to student groups at beginning of year			<u>31,341</u>	
Due to student groups at end of year			<u>\$ 30,416</u>	

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**Colorado Department of Education  
Supplementary Schedule**

Auditors' integrity report – This fiscal-year report is required by the Colorado Department of Education to maintain statewide consistency in financial reporting. This report is also used to gather financial data that could affect future state funding.

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**Independent Auditors' Report on Auditors' Integrity Report**

Board of Education  
Washington County School District R-3  
Otis, Colorado

We have audited the financial statements of the Washington County School District R-3 (the District) as of and for the year ended June 30, 2016, and our report thereon dated October 7, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Auditors' Integrity Report is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado  
October 7, 2016

**Colorado Department of Education**  
**Auditors Integrity Report**  
 District: 3050 - OTIS R-3  
 Fiscal Year 2015-16  
 Colorado School District/BOCES

**Revenues, Expenditures, & Fund Balance by Fund**

Fund Type Number	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	5700-6799 & Prior Per Adj (6880*) Ending Fund Balance
<b>Governmental</b>			
16 Risk Management Fund	1,082	53,104	2,986
19 Colorado Pre-trial Program Fund	0	0	0
<b>Sub-Totals</b>	<b>632,924</b>	<b>2,622,814</b>	<b>675,803</b>
21 Food Service Spec Revenue Fund	21,191	104,781	19,723
22 Non-Designated Purpose Grant Fund	0	0	0
23 Rapid Activity Special Revenue Fund	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0
25 Transportation Fund	0	0	0
31 Grant Redemption Fund	206,863	187,713	221,582
39 Certificate of Participation (COP) Debt Service Fund	0	0	0
41 Building Fund	0	123,495	0
42 Special Building Fund	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0
<b>Totals</b>	<b>864,008</b>	<b>3,018,314</b>	<b>1,117,188</b>
<b>Proprietary</b>			
50 Other Enterprise Funds	0	0	0
62 (63) Risk-Related Activity Fund	0	0	0
80 (81-89) Other Internal Service Funds	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fiduciary</b>			
70 Other Trust and Agency Funds	0	0	0
72 Private Purpose Trust Fund	0	0	0
73 Agency Fund	87,961	13,450	82,081
74 Rapid Activity Agency Fund	31,341	125,501	30,414
79 Grant Management Fund	0	0	0
85 Foundations	0	0	0
<b>Totals</b>	<b>119,302</b>	<b>138,951</b>	<b>112,495</b>

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