

PUEBLO COUNTY SCHOOL DISTRICT NO. 70
PUEBLO, COLORADO
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
AND CERTAIN SUPPLEMENTAL INFORMATION
PRESENTED FOR PURPOSES OF A SINGLE AUDIT

June 30, 2017

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Independent Auditor's Report

February 20, 2018

Board of Education
Pueblo County School District No. 70
Pueblo, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pueblo County School District No. 70 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Swallows Charter Academy, a component unit of the District, which represents 37%, 34% and 70% respectively of the assets, fund balances, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Swallows Charter Academy in the aggregate discretely presented component units, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the remaining aggregate fund information of Pueblo County School District No. 70, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information as 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 and other auditors 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 combining and individual nonmajor fund financial statements, budgetary comparisons for nonmajor funds, the combining component unit financial statements and schedules, the Colorado Department of Education Auditor's Electronic Financial Data Check Figures Report, Schedule of Computations of Fiscal Year Spending Under Section 20 of Article X of the State Constitution as required by the State of Colorado, are not a part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparisons schedules for nonmajor funds, the combining component unit financial statements and schedules, the Colorado Department of Education Auditor's Electronic Financial Data Integrity Check Figures, the Schedule of Computations of Fiscal Year Spending, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual nonmajor fund financial statements and schedules, the combining component unit financial statements and schedules, the Colorado Department of Education Auditor's Electronic Data Check Figures, the Schedule of Computations of Fiscal Year Spending, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in the relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, February 20, 2018, on our consideration of Pueblo County School District No. 70's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pueblo County School District No. 70's internal control over financial reporting and compliance.

Garrett Ross | DeNardo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
Pueblo County School District No. 70
Pueblo County, Colorado
June 30, 2017

As management of the Pueblo County School District No. 70, Pueblo County, Colorado (the District), we offer readers of the District's financial statements this narrative and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Since July 1, 2014, the District has been required to apply the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* (GASB 68). The GASB pronouncement is discussed in more detail under Accounting Pronouncements on page 6.
- GASB 68 revises and establishes financial reporting requirements for governments that provide their employees with pension benefits. The District provides its employees with pension benefits through a multiple employer cost-sharing defined benefit retirement program administered by the Public Employees' Retirement Association of Colorado (PERA).
- Among other requirements, the District is now required to report its proportionate share of the total PERA Net Pension Liability (NPL) in its government-wide financial statements. The District's share of the PERA NPL is \$255.8 million as of June 30, 2017. Inclusion of this figure in the government-wide financial statements does not indicate that the District has a liability to pay the amount shown. The District's liability is limited to the annually required contributions established by the State Legislature.
- Fund level statements, including the General Fund statements, are not impacted by GASB 68 reporting.
- Due to the effect of GASB 68, the District has a negative net position. The governmental liabilities and deferred inflows of resources exceed its assets and deferred outflows of resources by \$102.9 million.
- The net position of the District includes \$34.0 million invested in capital assets, net of related debt; \$12.64 million restricted for debt service payments; \$2.07 million restricted for emergencies, as defined under the Taxpayer Bill of Rights; \$0.02 million in a restricted Pre-School Reserve; and an unrestricted net position balance of negative (\$151.70) million. The unrestricted balance is negative due to the effects of GASB 68. The unrestricted balance is also different than what would be reflected on a governmental fund accounting basis due to the accounting treatment in the government-wide statements of accrued salaries and benefits earned but unpaid and compensated absences payable.
- In prior years, the District reported its Food Service operations as a business-type activity separate from governmental activities. Due to a change in State regulations, the Food Services Fund is now reported as a governmental fund and its operations are included in governmental activities.

- The total net position of the District decreased by \$37,914,943 for the year ended June 30, 2017, primarily due to the accounting treatment of the Net Pension Liability.
- Fund balance of the District's governmental funds increased by \$328,419 resulting in an ending fund balance of \$22,666,302. This increase was due primarily to the continuation of tight expense controls in the District.
- During the current fiscal year, the fund balance in the District's General Fund (including the Capital Reserve) increased by \$1,214,230, from \$7,817,473 to \$9,031,703. This is the third consecutive year of revenues outpacing expenditures, reversing a deficit spending trend in years prior.
- The District's long-term obligations decreased by \$6,482,303 to \$95,253,949. Current year principal payments on existing General Obligation debt totaled \$5,035,000.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (MD&A), the basic financial statements, and supplementary information. The MD&A provides an analysis of the District's overall financial position and results of the previous year's operations to assist the users of financial statements to assess whether the government's finances have improved or deteriorated. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The governmental funds statements tell how basic services, such as instruction, were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationship in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Government-wide Financial Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. Implementation of GASB 68, however, has a significant impact on the Net Position and should be taken into consideration in evaluating the District's financial health.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as instruction, transportation, custodial and maintenance, other support services, and administration. The School Finance Act of 1994, as amended, made up of property taxes and state equalization, finances most of these activities.
- *Component Units:* The District has two separate charter schools, Swallows Charter Academy and Connect School. These component units are important because the District is financially accountable for them.

Accounting Pronouncements

PERA adopted GASB No. 67, *Financial Reporting for Pension Plans* (GASB 67), effective for the year ending December 31, 2014. GASB 67 establishes a shift in financial disclosure requirements from a funding-based approach to an accounting-based approach. The actuarial valuation for accounting purposes emphasizes the obligation an employer incurs to employees through the employment-exchange process. The primary purpose of the valuation for accounting purposes is to provide a consistent, standardized methodology that allows comparability of amounts and increased transparency of the pension liability. GASB 67 requires a different approach for determining the Net Pension Liability ("NPL") as opposed to the previously disclosed Unfunded Accrued Actuarial Liability ("UAAL").

Actuarially Determined Contributions ("ADC") have replaced Annual Required Contributions ("ARC") as the gauge of the adequacy of the State's statutory contribution rates. GASB 67 requires the disclosure of the amount of contributions, the ADC amount and the difference between those amounts. The ADC is calculated using the investment rate of return and discount rate assumptions according to the PERA Board's Funding Policy (currently 7.25%). An ADC deficiency arises when contributions are less than the ADC.

The District has no legal obligation to fund PERA's UAAL or ADC, nor does it have any ability to affect funding, benefits or annual required contribution decisions made by PERA in administering the defined benefit pension plan.

Effective with Fiscal Year 2014-2015, the District was required to apply GASB 68. GASB 68 significantly changed pension accounting and financial reporting by requiring an NPL on the Statement of Net Position. Historically, an unfunded pension obligation for employers in a cost-sharing plan, such as PERA, was considered to be a liability to be reported in future periods. Information about the total liability, unfunded and funded, was disclosed only in the notes to the financial statements and as required supplemental information. Financial statements now reflect an NPL based on a model similar to single employer plans.

The current period pension expense primarily results from changes in the components of the NPL. NPL is computed as the difference between the employer's obligation to provide pension benefits earned and funding of those benefits (the plan assets being held in trust); pension amounts earned by current and former employees for past services are recorded as a liability in current statements, not in future statements. Most causes of change in the NPL are included in pension expense immediately. Changes resulting from certain causes are introduced into pension expense over multiple periods. See Note G on pages 33-39 in the Notes to Basic Financial Statements for the full disclosure related to PERA.

Fund Financial Statements

The Fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has three kinds of funds, as described below.

- *Governmental funds:* Most of the District's basic services are included in 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. Governmental fund types used by the District include the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. An *enterprise fund* (one type of proprietary fund) statement is the same as a business-type activity statement but provides more detail and additional information such as cash flows. The Food Service Fund is no longer treated as a proprietary fund. *Internal service funds* (the other kind of proprietary funds) are used by Districts to report activities that provide supplies and services for its other programs and activities.
- *Fiduciary funds:* The District is the agent, or fiduciary, for assets that belong to others, such as the Trust and Agency Fund, which includes funds collected on behalf of school-sponsored pupil organizations and activities. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 24-46 of this report.

District-wide Financial Analysis

The assets of the District are classified as current assets and capital assets. Cash, investments, receivables, inventories, accrued revenue, and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of the property tax collection process; the District receives approximately 61% of the annual property tax assessment in April, May and June.

Capital assets are used in the operations of the District. These assets are land, improvements, buildings, equipment and vehicles. Capital assets are discussed in greater detail in the section titled, Capital assets and Debt Administration, elsewhere in this analysis.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, unearned revenues, and current debt obligations. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets, or new resources that become available during Fiscal 2018. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after Fiscal 2018.

The liabilities of the District activities exceed assets by \$102,936,719 and the Unrestricted Net Position is negative (\$151,699,799). This negative net position is due to the implementation of GASB 68, as discussed earlier, which increased Liabilities with the inclusion of the Net Pension Liability of (\$255,845,307). Measures continue to be successfully implemented by the District to eliminate the negative unrestricted balance (net of the Pension Liability) which existed at June 30, 2014 and to return to a positive unrestricted balance, net of the Pension Liability.

The District has a net investment of \$34,032,130 in land, improvements, building, equipment, and vehicles which provide the services to the District's 9,861 public school students. Net position of \$12,640,155, accumulated due to voter approved bonded debt mill levy assessments, has been restricted to provide resources to liquidate the current general obligation bond principal and related interest payments. The legally required TABOR reserves have also been restricted in the amount of \$2,069,200.

The following table provides a condensed summary of the District's net position for 2017 compared to 2016:

	Governmental Activities	
	2017	2016
Assets		
Current and Other Assets	36,389,991	31,966,765
Capital Assets	133,646,518	138,069,744
Total Assets	166,500,260	170,036,509
Liabilities		
Current Liabilities	16,800,291	16,438,448
Non-Current Liabilities	349,365,979	229,607,561
Total Liabilities	366,166,270	246,046,009
Deferred Inflow/Outflow of Resources		
Deferred Outflow	97,680,745	13,640,928
Deferred Inflow	951,454	2,653,204
Net Position		
Invested in Capital Assets, Net of Related Debt	34,032,130	32,810,044
Restricted	14,730,950	16,243,973
Unrestricted	(151,699,799)	(114,075,793)
Total Net Position	(102,936,719)	(65,021,776)

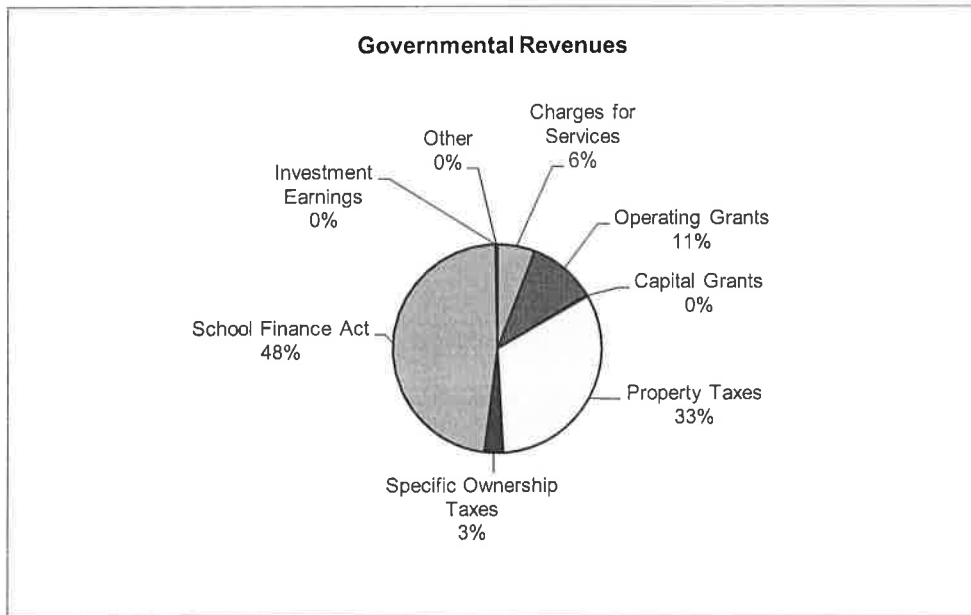
See PERA Discussion on page 6 for explanation of "Unrestricted" Change

Table 2 shows the changes in net position for fiscal year 2017 compared to 2016:

	Governmental Activities	
	2017	2016
Revenues		
Program Revenues:		
Charges for Services	4,848,889	4,482,061
Operating Grants & Contributions	8,834,913	8,753,554
Capital Grants and Contributions	206,239	48,720
General Revenues:		
Taxes:		
Local Property Taxes	27,013,609	26,442,482
Specific Ownership Taxes	2,415,784	2,196,665
School Finance Act	39,730,132	38,934,936
Earnings on Investments	32,216	43,375
Other	215,755	432,625
Total Revenues	83,297,537	81,334,418
Expenses		
Governmental Activities:		
Direct Instruction	68,768,491	42,280,384
Indirect Instruction	23,532,290	15,505,762
Transportation	3,018,588	2,600,667
Custodial and Maintenance	6,500,330	4,744,230
Other Support Services	14,786,213	11,995,468
General Administration	1,019,135	627,077
Interest Expense-Unallocated	3,587,433	3,776,733
Total Expenses	121,212,480	81,530,321
Change in Net Position	(37,914,943)	(195,903)
Net Position - July 1	(65,021,776)	(64,825,873)
Net Position - June 30	(102,936,719)	(65,021,776)

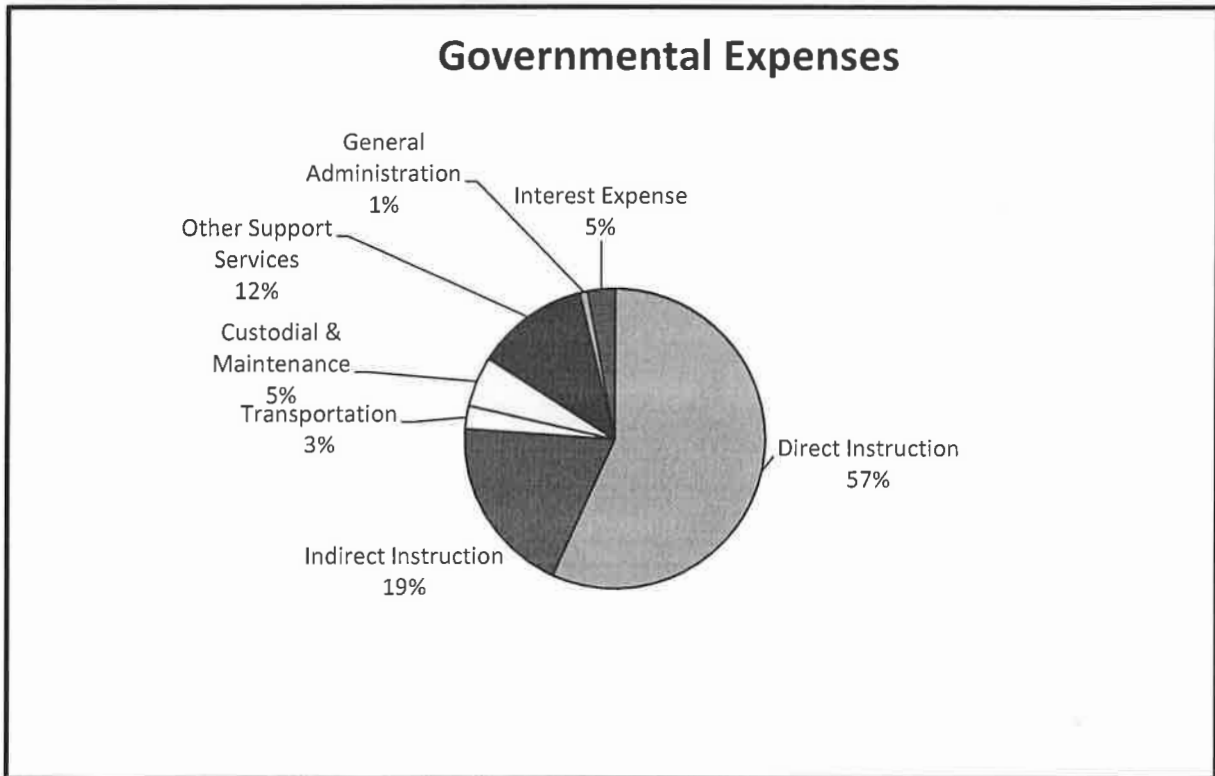
State equalization and taxes (Property Taxes and Specific Ownership Taxes) accounted for most of the District's total revenue. As shown in the graph below, State Equalization (School Finance Act) contributed 48% of total revenues, while Property Taxes and Specific Ownership Taxes contributed 36% of every dollar raised. Another 11% came from state and federal grants for specific programs and the remaining 7% from fees charged for services, investment earnings and miscellaneous sources. As a percentage of total revenue, the State Equalization component and property taxes were unchanged from the prior year. These amounts are determined annually by the state in accordance with the School Finance Act.

Table 3



As shown in Table 4 below, a total of 76% of the District's expenses are related to instructing and caring for (pupil services) students. This is an increase from 71% in the prior year. Transportation accounts for 3% of District expenses, which is higher than many other districts. The District's administrative expenses accounted for only 1% of total costs.

Table 4



Governmental Activities

The primary source of operating revenue for school districts comes from the School Finance Act of 1994 (SFA). Under the SFA the District received \$7,045 per funded student in FY 2016-17. This is up \$105 from \$6,940 per funded student in FY 2015-16. In Fiscal Year 2016-17 the funded pupil count was 9,246.4. For the 2016-17 fiscal year the District continued to be one of the lowest funded districts in the state. Funding for the SFA comes from property taxes, specific ownership tax and state equalization. The District receives approximately 65% of SFA funding from state equalization while the remaining amounts come from property taxes and specific ownership taxes. The District's assessed valuation generated \$26,973,609 in total property taxes (for both operations and bond redemption payments) in fiscal year 2016-17. Due to a small increase in the District's assessed valuation for collection in fiscal year 2017-18, this is expected to again increase in the 2017-18 fiscal year.

The District sets the bond mill rate annually in an amount sufficient to make the annual debt service payment. As a result of significant enrollment growth, the District has requested and received voter approval for bond issues in 1994, 1995, 1999, 2002, and 2012. Accordingly, the bond redemption mill levy increased from 12.925 mills in fiscal year 1996 to 21.964 mills in fiscal year 2005. Subsequently, however, due primarily to growth and the corresponding increase in assessed valuation, the District has experienced a decrease in the bond redemption mill levy. For fiscal year 2017-18, the bond redemption mill levy is 12.963 mills.

Financial Analysis of the District's Funds

Detailed information about the District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. For FY 2016-17, all government funds had total revenues, including other financing sources, of \$83,987,587 and expenditures of \$83,659,168. The Debt Service Fund experienced an increase in fund balance, increasing by \$242,485. The Capital Projects Fund had a decrease in fund balance of \$1,327,273, due to the expenditure of funds for capital projects approved by voters in November 2012. The General Fund change in fund balance, after considering Capital Leases and Transfers, was an increase of \$1,214,230.

General Fund Budgetary Highlights.

The District's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General Fund.

The District budgets adequate resources to sustain programs designed to ensure that every child has a high quality educational experience. In recent years, state funding reductions and School Finance rescissions has created significant challenges as the District seeks to align resources with the educational goals of the District.

Capital Assets and Debt Administration

By the end of Fiscal 2017, the District had invested \$201,700,136 in land, buildings, Construction in Progress, equipment and transportation vehicles. As shown in Table 5, this is a -0.2% decrease in Fiscal 2017 compared to 2016. The District has substantially completed plant and equipment improvements resulting from the successful 2012 bond election.

Table 5
Capital Assets at June 30, 2017 and 2016

Additional information on the District's capital assets can be found in Note E on page 31 of this report.

	Governmental		Total Percentage
	Activities		Change
	<u>2017</u>	<u>2016</u>	<u>2016-2017</u>
Land	564,859	564,859	0%
Construction in Progress	274,235	14,434,706	-98.10%
Bldg & Improvements	186,211,425	170,373,573	9.30%
Furniture & Fixtures	12,713,040	15,150,975	-16.10%
Automotive Equip	<u>1,936,577</u>	<u>1,573,344</u>	<u>23.10%</u>
Total Capital Assets	201,700,136	202,097,457	-0.20%

Long-term Debt.

At June 30, 2017, the District had total bonded debt outstanding of \$80,945,000 backed by the full faith and credit of the District. Additionally, the District has long-term debt obligations for Capital Leases, Certificates of Participation, Qualified Zone Academy Bonds, and Build America

Bonds in the amount of \$13,644,347 outstanding at the end of the current fiscal year. This is a decrease from \$15,012,699 at the end of the prior year.

The total District General Obligation Bonds outstanding decreased by \$5,035,000 during the fiscal year as a result of District bond principal payments. No new General Obligation Bonds were issued by the District.

The District bond ratings were unchanged over the past year. The District continues to maintain an "A2" rating from Moody's Investors Service and "A" from Standard & Poor's Corporation.

State statutes limit the amount of General Obligation debt that the District may issue. At the end of fiscal year 2016-17 the District had \$57.7 million of unused bond capacity. Additional increases in Assessed Valuation, combined with the scheduled payment of principal, is projected to free up more capacity in the ensuing fiscal years, thus providing the needed capacity for future bond issues to be presented to the voters should the need arise. The amount and timing of additional debt issuance in the future, subject to statutory debt limitations and voter approval, will depend on the rate of enrollment growth, capital needs, assessed valuation growth, and the continuing repayment of existing debt.

Additional information on the District's long-term obligations can be found in Notes I and J on pages 40-43 of this report.

Economic Factors and Next Year's Budget and Rates

In November, 2000, the voters of Colorado passed a statewide ballot issue to amend the State Constitution, Amendment 23. This amendment required that the state fund public education at a minimum of growth at inflation plus one percent for the next ten years beginning with fiscal year 2001-2002 and thereafter at inflation.

- For calendar year 2016, the inflation rate was 2.8 percent. Accordingly, in accordance with Amendment 23, the District should receive additional funding of 2.8% for the 2017-18 school year. Because of the State financial crisis in the 2008 - 2012 time-frame, the District experienced a severe shortfall in funding for several years compared with the amounts contemplated under Amendment 23. Thus, because of adjustments, the actual increase for the 2017-18 school year is expected to be 1.52%. Adjustments continue to be made to the funding formula as the State attempts to restore some of the funding lost in past years. Nevertheless, the District continues to receive per pupil revenue well below the Amendment 23 formula amounts, thus causing continued financial strain on the District.

The District is committed to an ongoing review of its programs and services for both effectiveness and efficiency. To accomplish this, the District examines how to best provide essential services on a cost-effective basis and to re-direct resources to the schools.

Requests for Information

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

Pueblo County School District No. 70
Office of the Director of Business Services
24951 Highway 50 East
Pueblo, Colorado 81006

BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

STATEMENT OF NET POSITION
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	Primary Government Governmental Activities	Component Units Charter Schools
<u>Assets</u>		
Cash and equivalents	\$ 24,737,817	\$ 1,556,976
Cash with County Treasurer	374,273	-
Restricted cash and equivalents	303,129	213,666
Investments	3,900,252	-
Receivables		
Taxes	1,364,652	-
Other	355,744	9,848
Due from primary government	-	1,352,390
Due from component unit	23,420	-
Accrued federal revenue	1,387,868	-
Prepaid expenses	320,859	5,880
Inventories	109,148	-
Capital assets, net of depreciation	133,646,518	4,659,301
Total Assets	166,523,680	7,798,061
<u>Deferred Outflow of Resources</u>		
Bond discount	72,151	-
Related to pensions	97,608,594	8,813,023
Total Deferred Outflows of Resources	97,680,745	8,813,023
<u>Liabilities</u>		
Accounts and interest payable	1,016,974	93,119
Accrued salaries	7,193,140	321,778
Due to primary government	-	23,420
Due to component unit	1,352,390	-
Unearned revenue	502,889	-
Long- Term Liabilities		
Due within one year	6,758,318	55,000
Due in more than one year	93,520,672	3,487,400
Net pension liability	255,845,307	18,479,765
Total Liabilities	366,189,690	22,460,482
<u>Deferred Inflow of Resources</u>		
Deferred amount on refunding	101,370	-
Related to pensions	850,084	507,145
Total Deferred Inflows of Resources	951,454	507,145
<u>Net Position</u>		
Investment in capital assets, net of related debt	34,032,130	1,101,664
Restricted	14,730,950	393,666
Unrestricted	(151,699,799)	(7,851,873)
Total Net Position	\$ (102,936,719)	\$ (6,356,543)

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Charter Schools
Governmental Activities						
Direct instruction	\$ 68,768,491	\$ 661,477	\$ 7,625,573	\$ 129,024	\$ (60,352,417)	\$ -
Indirect instruction	23,532,290	-	961,077	77,215	(22,493,998)	-
Transportation	3,018,588	-	-	-	(3,018,588)	-
Custodial and maintenance	6,500,330	-	-	-	(6,500,330)	-
Other support services	14,786,213	3,978,729	235,546	-	(10,571,938)	-
General administration	1,019,135	208,683	12,717	-	(797,735)	-
Interest expense, unallocated	3,587,433	-	-	-	(3,587,433)	-
Total Governmental Activities	121,212,480	4,848,889	8,834,913	206,239	(107,322,439)	-
Component Unit - Charter Schools	\$ 10,221,893	\$ 85,822	\$ 1,652	\$ 141,705	\$ -	\$ (9,992,714)
General Revenues						
					\$ 27,013,609	\$ -
					2,415,784	-
					39,730,132	5,756,813
					32,216	3
					(32,991)	29,120
					248,746	289,299
			Total General Revenues		69,407,496	6,075,235
			Changes in Net Position		(37,914,943)	(3,917,479)
			Net Position - July 1		(65,021,776)	(2,439,064)
			Net Position - June 30		\$ (102,936,719)	\$ (6,356,543)

The accompanying notes to financial statements are an integral part of this statement.

GOVERNMENTAL FUND
FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 15,118,933	\$ 8,577,067	\$ -	\$ 1,041,817	\$ 24,737,817
Cash with County Treasurer	322,729	51,544	-	-	374,273
Restricted cash with fiscal agent	-	-	303,129	-	303,129
Investments, at fair value	1,664	3,835,324	12,059	51,205	3,900,252
Accounts and other receivables	327,934	-	-	-	327,934
Other taxes receivable	818,432	176,220	-	-	994,652
Due from other funds	703,105	-	-	-	703,105
Due from component unit	23,420	-	-	-	23,420
Property taxes receivable	250,000	120,000	-	-	370,000
Accrued federal revenue	324,529	-	-	1,063,339	1,387,868
Inventories	41,659	-	-	67,489	109,148
Total Assets	<u>17,932,405</u>	<u>12,760,155</u>	<u>315,188</u>	<u>2,223,850</u>	<u>33,231,598</u>
Liabilities					
Accounts payable	379,044	-	-	66,728	445,772
Accrued salaries and benefits	6,510,289	-	-	682,851	7,193,140
Due to other funds	-	-	512,671	188,434	701,105
Due to component unit	1,352,390	-	-	-	1,352,390
Unearned revenue	408,979	-	-	93,910	502,889
Total Liabilities	<u>8,650,702</u>	<u>-</u>	<u>512,671</u>	<u>1,031,923</u>	<u>10,195,296</u>
Deferred Inflow of Resources -					
Property taxes	250,000	120,000	-	-	370,000
Fund Balance					
Nonspendable	41,659	-	-	67,489	109,148
Restricted	2,004,395	12,640,155	-	86,400	14,730,950
Assigned	690,344	-	-	1,038,038	1,728,382
Unassigned	6,295,305	-	(197,483)	-	6,097,822
Total Fund Balances	<u>\$ 9,031,703</u>	<u>\$ 12,640,155</u>	<u>\$ (197,483)</u>	<u>\$ 1,191,927</u>	<u>\$ 22,666,302</u>

The accompanying notes to financial statements are an integral part of this statement.

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

Total Fund Balances - Governmental Fund	\$ 22,666,302
Property tax receivable-revenues that are not available to pay current expenditures are not on the governmental fund financial statements, but recognized on the government-wide financial statements.	370,000
Revenue receivable that does not provide current financial resources is not recorded in the governmental fund statements.	25,810
Expenditures for services which benefit future periods are treated as prepaid expenses and included in current assets in the government-wide financial statements.	320,859
Capital assets used in governmental activities are not considered current financial resources and, therefore, not reported in the governmental funds.	133,646,518
Deferred outflows from refunding debt are not considered current financial resources and not reported in the governmental funds.	72,151
Deferred amount on refunding is not due and payable in the current period and not included in the fund financial statements.	(5,126,412)
Long-term liabilities for general obligation debt (\$80,945,000), quality zone academy bond debt (\$1,112,341), certificates of participation (\$7,425,000) Build America bonds (\$4,287,713), capital leases (\$819,292), CDE audit adjustment (\$41,961) and compensated absences (\$622,641) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(95,253,948)
Interest payable on general obligation debt is not recorded on the fund statements because it is not a current use of cash. Interest is accrued on the government-wide statements since the liability is to be paid in the near term.	(571,202)
Deferred activity related to pension assumptions are not recorded and included in the governmental funds.	97,608,594
Pension contributions subsequent to plan measurement date are not included in the long term liability and are deferred.	(850,084)
Net pension liability for the District is a long term liability not due and payable in the current period and therefore not reported in governmental funds.	<u>(255,845,307)</u>
Total Net Position - Governmental Activities	<u>\$ (102,936,719)</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local property tax	\$ 18,284,280	\$ 8,689,329	\$ -	\$ -	\$ 26,973,609
Specific ownership tax	2,415,784	-	-	-	2,415,784
State sources	49,597,434	-	-	174,772	49,772,206
Federal sources	1,153,758	-	-	5,757,513	6,911,271
Other sources	1,369,313	29,481	2,346	2,058,796	3,459,936
Fund allocations	<u>(5,756,813)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,756,813)</u>
Total Revenues	<u>67,063,756</u>	<u>8,718,810</u>	<u>2,346</u>	<u>7,991,081</u>	<u>83,775,993</u>
Expenditures					
Direct instruction	36,432,611	-	-	3,617,916	40,050,527
Indirect instruction	14,526,764	-	-	965,115	15,491,879
Transportation	2,436,243	-	-	157,544	2,593,787
Custodial and maintenance	4,382,477	-	-	8,891	4,391,368
Other support services	3,656,051	-	94,709	3,681,061	7,431,821
General administration	549,797	-	-	63,381	613,178
Capital outlay	834,519	-	1,234,910	243,196	2,312,625
Debt service:					
Principal retirement	1,723,365	5,035,000	-	-	6,758,365
Interest and fiscal charges	574,293	3,441,325	-	-	4,015,618
Total Expenditures	<u>65,116,120</u>	<u>8,476,325</u>	<u>1,329,619</u>	<u>8,737,104</u>	<u>83,659,168</u>
Excess of Revenues Over (Under) Expenditures	<u>1,947,636</u>	<u>242,485</u>	<u>(1,327,273)</u>	<u>(746,023)</u>	<u>116,825</u>
Other Financing Sources (Uses)					
Transfers to other funds	(945,000)	-	-	-	(945,000)
Transfers from other funds	-	-	-	945,000	945,000
Proceeds from capital lease	211,594	-	-	-	211,594
Total Other Financing Sources (Uses)	<u>(733,406)</u>	<u>-</u>	<u>-</u>	<u>945,000</u>	<u>211,594</u>
Net Change in Fund Balances	<u>1,214,230</u>	<u>242,485</u>	<u>(1,327,273)</u>	<u>198,977</u>	<u>328,419</u>
Fund Balances - July 1	<u>7,817,473</u>	<u>12,397,670</u>	<u>1,129,790</u>	<u>992,950</u>	<u>22,337,883</u>
Fund Balances - June 30	<u>\$ 9,031,703</u>	<u>\$ 12,640,155</u>	<u>\$ (197,483)</u>	<u>\$ 1,191,927</u>	<u>\$ 22,666,302</u>

The accompanying notes to financial statements are an integral part of this statement.

RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

Total Change in Fund Balances - Governmental Funds	\$	328,419
Change in receivables - revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		7,789
Discount on issuance of certificates of participation to be amortized over the repayment period.		(4,123)
Expenditures for services which benefit a future period are reported as prepaid expenses and included in current assets in the government wide statement of net position. In the governmental fund financial statements they are treated as expenditures when paid.		290,859
Change in property tax receivable - revenues that do not provide current financial resources are not included in the governmental fund financial statements but recognized on the government-wide financial statements.		40,000
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$6,251,567) exceeds capital outlay (\$2,312,625) in the period.		(3,938,942)
In the government-wide statements, basis in capital assets that have been sold reduces income. In governmental funds the basis is not recognized		(484,284)
In the government-wide statements the amortization of the deferred refunding amount reduces interest expense. In governmental funds the amortization is not recognized.		28,737
Other long term obligation payable to CDE is not recognized in the governmental funds but is recognized in the government wide statements.		(41,961)
Principal retirements - retirements of principal outstanding on the District's debt result in a reduction of accumulated resources on the fund financial statements. The government-wide statements show these reductions against the long-term liabilities.		6,758,365
Some capital assets acquired this year were financed with capital leases. These amounts are reported in the governmental funds as a source of financing. On the other hand, these financing sources are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(211,594)
Premiums on general obligation debt are amortized on the government-wide statements, but are recognized in full in the governmental funds.		366,549
Net pension related items are reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported in the governmental funds.		(41,069,272)
In the government-wide statements accrued compensated absences are measured by the amount earned and unused. In the governmental funds, the expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid). Therefore, the change in the accrued compensated absences is recognized.		(22,507)
Interest payable on general obligation debt is not recorded on the fund statements because it is not a current use of cash. Interest is accrued on the government-wide statements, and the change in the liability is recognized.		<u>37,022</u>
Total Change in Net Position - Governmental Activities	\$	<u>(37,914,943)</u>

The accompanying notes to financial statements are an integral part of this statement.

INTERNAL SERVICE FUND

FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	Component Unit Swallows Charter School Internal Service <u>Fund</u>
<u>Assets</u>	
Current Assets	
Restricted cash and investments	\$ 213,666
Non-current Assets	
Equipment, net of depreciation	<u>3,397,283</u>
Total Assets	<u>3,610,949</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	-
Interest payable	26,357
Due to other funds	3,739
Bonds payable - current portion	<u>55,000</u>
Total Current Liabilities	85,096
Long-term Liabilities	
Bonds payable - long-term portion	<u>3,487,400</u>
Total Liabilities	<u>3,572,496</u>
<u>Net Position</u>	
Invested in capital assets, net of related debt	68,549
Unrestricted	<u>(30,096)</u>
Total Net Position	<u>\$ 38,453</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

INTERNAL SERVICE FUND

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

	Component Unit Swallows Charter School Internal Service <u>Fund</u>
Operating Revenues	
Rental income	\$ 257,870
Operating Expenses	
Purchased services	<u>-</u>
Operating Income (Loss)	257,870
Nonoperating Expenses	
Interest expense	(204,620)
Depreciation expense	(18,035)
Bond Amortization Discount	<u>(9,200)</u>
Change in Net Position	26,015
Net Position - July 1	<u>12,438</u>
Net Position - June 30	<u>\$ 38,453</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	Component Unit Swallows Charter School Internal Service Fund
Cash Flows From Operating Activities:	
Cash received from operations	\$ 257,870
Cash paid to suppliers	(18,536)
Net Cash Provided (Used) by Operating Activities	<u>239,334</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(16,856)
Bond principal payments	(50,000)
Bond interest payments	(205,045)
Net Cash Provided (Used) by Capital Financing Activities	<u>(271,901)</u>
Net Increase (Decrease) in Cash	(32,567)
Cash - July 1	<u>246,233</u>
Cash - June 30	<u>\$ 213,666</u>
Reconciliation of Operating Income (Loss) to Net	
Cash Used by Operating Activities	
Operating income (loss)	\$ 257,870
Adjustments to reconcile operating loss to net cash used	
by operating activities:	
Changes in Assets and liabilities:	
Accounts payable	-
Due to other funds	(18,536)
Net Cash Provided by Operating Activities	<u>\$ 239,334</u>

The accompanying notes to financial statements are an integral part of this statement.

**FIDUCIARY FUND
FINANCIAL STATEMENT**

STATEMENT OF FIDUCIARY NET POSITION

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

<u>Assets</u>	<u>Student Activity Agency</u>
Cash in bank and on hand	\$ 1,162,274
Accounts receivable	-
Due from other funds	-
	<hr/>
Total Assets	\$ 1,162,274
	<hr/>
<u>Liabilities and Fund Equity</u>	
Accounts payable	\$ 47,871
Due to other funds	2,000
Due to student groups	1,112,403
	<hr/>
Total Liabilities and Fund Equity	\$ 1,162,274
	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pueblo County School District No. 70, (the School District) conform to generally accepted accounting principles, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The following is a summary of the District's significant accounting policies:

Reporting Entity

Pueblo County School District No. 70 is an independent school district governed by an elected five member board of education. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Pueblo County School District No. 70 (the primary government) and its component units.

A component unit is a legally separate organization for which elected officials of the primary government are considered to be financially accountable. The component units discussed below are included in the School District's reporting entity. None of the component units are considered to be a major fund.

Discretely Presented Component Units - Charter Schools The State of Colorado Legislature in 1993 enacted the "Charter School Act - Colorado Revised Statutes (CRS) Section 22-30.5-101." This Act permits the District to contract with individuals and organizations for the operation of schools within the District. The statutes define these contracted schools as "Charter Schools." Charter schools are financed from state school finance act revenues, property taxes and from revenues generated by the charter school, within the limits established by the Charter School Act. Charter Schools generally have separate governing boards; however, the Pueblo County School District's Board of Education must approve all Charter School applications and budgets. The Charter Schools do not meet the definition of a component unit but are discretely presented component units as required by the Colorado Department of Education. All charter schools are required to have individual independent audits.

The School District has two charters schools - Connect School and the Swallows Charter Academy.

Blended Component Unit - The School District 70 Education Foundation The Foundation is a 501(c)(3) non-profit entity organized to operate for educational and charitable purposes exclusively for the benefit of the School District, including the support and enrichment of the education of the student. The Foundation is governed by a board approved by the Board of Education of the School District. The Foundation was reported as a special revenue fund within the School District's financial statements. The Foundation issues compiled financial statements. As of June 30, 2013 the Foundation had no net assets and has had no financial transactions since the year ended June 30, 2013. Additional information may be obtained by writing the Foundation, 24951 East U.S. Highway 50, Pueblo, CO 81006 or by calling 1-719-542-0220.

Government-Wide and Fund Financial Statements

The District's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from activities of the fiscal year.

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the later are excluded from the government-wide financial statements. Major governmental funds (General Fund, Debt Service Fund and Capital Projects Fund) are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentations

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the School District's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The District's agency funds apply the accrual basis of accounting, but do not have a measurement focus.

Property and specific ownership taxes are reported as receivables and unearned revenue when levied and as revenues when due for collection in the following year and determined to be available.

Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain sick and retirement pay which are accounted for as expenditures when expected to be liquidated with expendable financial resources.

The proprietary fund type is accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of proprietary funds are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The School District has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The individual funds account for governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The following major funds and fund types are used by the School District:

Governmental Fund Types

The focus of the governmental fund types' measurement is upon determination of financial position and changes in financial position rather than upon net income. The following is a description of the major and nonmajor governmental fund types of the School District:

General Fund

The General Fund, a major fund, records financial transactions for the current educational operations of the School District. All revenues and expenditures not allocated by law or contractual agreement to a special fund are accounted for in this fund.

Activities relating to the Capital Reserve, Preschool and Self Insurance funds have been included in the General Fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specified purposes. The Special Revenue Funds consist of the Governmental Designated-Purpose Grants, Pupil Athletic Fund, Food Service Fund and the School District 70 Education Foundation.

The Food Service Fund is used to account for the revenue and expenses related to providing breakfast, lunch and snacks to District students. Revenues include federal and state grants and food sales.

The Governmental Designated-Purpose Grants Fund is used to account for financial resources received from the federal government and other designated-purpose grants for expenditures incurred in carrying out the objectives of these programs.

The Pupil Athletic Fund accounts for funds used for all student athletics.

The School District 70 Education Foundation is organized to operate exclusively for educational and charitable purposes exclusively for the benefit of the School District. The Foundation has been inactive since the fiscal year ended June 30, 2013.

Debt Service Fund

The Debt Service Fund, a major fund, is used to account for the accumulation of resources for, and the payment of interest and principal on long-term debt other than those which may be payable from proprietary fund types.

Capital Projects Fund

The Capital Projects Fund is used to account for bond proceeds expended for the purpose of improving, equipping, and furnishing District buildings and other property.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

The focus of proprietary fund types measurement is upon determination of net income, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the proprietary fund types of the School District:

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent is that costs (expenses, including depreciation) of providing goods or services on a continuing basis are financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has no proprietary funds.

Internal Service Fund

The component unit Swallows Charter Academy uses an internal service fund to account for activity of the Swallows Charter Academy Building Corporation.

Fiduciary Funds

These funds account for assets held by the School District as trustee or agent for individuals, private organizations, and other units of government. Agency funds or custodial funds do not involve the measurement of results of operations (assets equal liabilities). The following is a description of the Fiduciary Fund of the School District:

Trust and Agency Fund

This fund accounts for assets held by the School District which have been collected on behalf of school-sponsored pupil organizations and activities.

Cash and Cash Equivalents

For purposes of the statement of cash flows in the Proprietary Fund, the School District considers all highly liquid investments with a maturity of three months or less when purchased, net of outstanding checks in excess of bank balance, to be cash equivalents.

Budgets and Budgetary Data

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary accounting is employed by the School District as a management control for all funds. Annual operating budgets are adopted each fiscal year through the passage of an annual appropriation resolution for the general fund, special revenue funds, debt service fund and the proprietary funds. For each legally adopted budget, budgetary control exists at the total fund level.
- b. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- c. All unencumbered budget appropriations lapse at the end of each fiscal year.

Inventories

Purchased inventories of the General Fund and Food Service Fund are stated at cost using the first-in, first-out method of determining inventories on hand. Commodity inventories in the Food Service Fund are stated at their fair market value on the date received. Perpetual inventory records are maintained for instructional supplies, plumbing and electrical supplies, and food service inventories. Physical counts were made of all inventories as of June 30, 2017. Inventories were adjusted to reflect the amounts determined by physical count.

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The School District's policy is to state investments in their financial statements at fair value. All investment income, including changes in the fair value of investments are reported as investment income on the School District's financial statements.

Capital Assets

All capital assets are capitalized at cost or estimated historical cost. Donated assets are recorded at fair market value at the time of donation. The costs of normal maintenance, repairs and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. The proceeds from the sale of assets used in the operations of the governmental fund types are recorded as revenues in the appropriate fund. The School District does not capitalize interest on the construction of capital assets. The School District maintains a capitalization threshold of \$5,000.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation of all capital assets used in governmental activities and by proprietary funds is charged as an expense against their operations. Depreciation is recorded starting in the month the asset is placed in service. Estimated useful lives are as follows:

	<u>ESTIMATED USEFUL LIFE</u>
Buildings and improvements	20 to 50 years
Furniture and fixtures	5 to 20 years
Automotive equipment	5 to 10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or the balance sheet will sometimes report a separate section of 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 (expenses/expenditures) until then. The District has two items that qualify for reporting under this category, bond discount and pension related items.

In addition to liabilities, the statement of financial position and or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting under this category. Property taxes, deferred amount on refunding and pension related items. These items are deferred and recognized as an inflow of resources in the period that the amounts become available.

Accounts Payable and Encumbrances

Accounts payable represent obligations due to vendors for goods delivered or services rendered prior to June 30, 2017.

Encumbrances represent outstanding purchase orders for goods or services not yet delivered or provided as of June 30, 2017. Encumbrances are not recognized as liabilities or expenditures until the period in which the payable becomes fixed.

Outstanding encumbrances at year-end are recognized as a reservation of fund balance.

There were no outstanding encumbrances at June 30, 2017.

Property Taxes

The School District's ad valorem property tax is levied by each December 15 for all real and business personal property located in the District. The assessed value of the roll on January 1, 2017, upon which the levy for the 2017 fiscal year was based, was \$671,537,668.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

The tax rates assessed for the year ended June 30, 2017 to finance general fund operations and the payment of principal and interest on general long-term debt were \$27.279 and \$12.963 per \$1,000 valuation, respectively, for a total of \$40.242 per \$1,000 valuation.

Property taxes attach as an enforceable lien on property as of January 1 following the levy date. Taxes are payable in two equal payments due before the last day of February and the 15th day of June or in one full payment before the last day of April.

Compensated Absences

The School District affords certain employees sick leave benefits which are vesting, accumulating rights and are carried forward to subsequent years. Payment of unused sick leave, or liability of the School District to the employee, if any, is payable only upon termination of an employee with ten years of continuous service to the District. The benefits are paid at varied rates applied to varied maximum accumulated days, depending on the employee group. The sick pay benefits are recognized at the time of the employee absence (i.e., days off for sick leave) which is in accordance with generally accepted accounting principles for these on-going benefits.

The School District also affords certain employees vacation benefits. These benefits are earned based upon the length of service and accumulation is limited to a maximum of 40 days. Accrued vacation is paid to employees upon termination of employment.

Amounts recognized as expenditures on the fund financial statements are those which have been paid in the current year or are expected to be liquidated with currently available expendable financial resources.

Total accrued vacation is included in the government-wide financial statements.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for governmental fund statements to the economic resources measurement and full accrual basis used for government-wide statements. However, certain items having no effect on measurement and basis were eliminated from the governmental fund statements during the consolidation of governmental activities.

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Risk Management

The School 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 disaster. The School District carries commercial insurance for such risks, including workers' compensation. The premiums for insurance coverage are paid primarily through the Self Insurance Reserve Fund. Such activities are included in the General Fund. Settled claims resulting from these risks did not exceed commercial insurance coverage during the fiscal year.

Deficit Fund Equity

As of June 30, 2017 the District had one fund with a deficit fund balance. The Building Fund had a deficit fund balance of \$197,483.

NOTE D - CASH DEPOSITS AND INVESTMENTS

Deposits

Colorado State statutes govern the School District's deposits of cash. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal insurance (FDIC or FSLIC) on deposits held.

Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositories as a group with a market value at least equal to the total uninsured deposits held by that institution. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pool. At June 30, 2017, the District had deposits over \$250,000 in the amount of \$25,465,158. These deposits are required to be collateralized under State Statutes.

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's policy for custodial risk parallels Colorado statutes.

A summary of cash and deposits held at year end follows:

<u>Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Less Than One Year</u>	<u>Less Than Five Years</u>
<u>Deposits</u>			
Cash	\$ 27,738,523	\$ 27,738,523	\$ -
Cash held by County Treasurer	374,273	374,272	-
Certificates of deposit	21,673	21,673	-
<u>Investments</u>			
State investment pool (ColoTrust)	64,929	64,929	-
Money market mutual fund	213,666	213,666	-
U.S. Government Securities	<u>3,835,323</u>	<u>499,579</u>	<u>3,335,744</u>
Total Deposits	<u>\$ 32,248,387</u>	<u>\$ 28,912,642</u>	<u>\$ 3,335,744</u>
Governmental Activities	\$ 29,315,471		
Component Unit	1,770,642		
Fiduciary Fund	<u>1,162,274</u>		
	<u>\$ 32,248,387</u>		

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, banker's acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE D - CASH DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District has invested \$64,929 in the Colorado Government Liquid Asset Trust (ColoTrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. ColoTrust operates similarly to a money market fund and each share is equal in value to \$1. Investments of ColoTrust consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to ColoTrust in connection with the direct investment and withdrawal functions of ColoTrust. Substantially all securities owned by ColoTrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by ColoTrust.

Interest rate risk - The District's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the governing body authorizes a longer period.

Credit risk - The District does not have a policy that would further limit its choices beyond the requirements of Colorado statutes. As of June 30, 2017, the District's investment in ColoTrust was rated AAm by Standard and Poor's and Aaa by Moody's.

NOTE E - CHANGES IN CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2017:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
<u>Governmental Activities</u>				
Non-Depreciable Assets:				
Land	\$ 564,859	\$ -	\$ -	\$ 564,859
Construction in progress	14,434,706	274,235	14,434,706	274,235
Total Non-Depreciable Assets	<u>14,999,565</u>	<u>274,235</u>	<u>14,434,706</u>	<u>839,094</u>
Depreciable Assets:				
Bldg. and improvements	170,373,573	15,837,852	-	186,211,425
Furniture and fixtures	15,150,975	203,510	2,641,445	12,713,040
Automotive equipment	1,573,344	371,733	8,500	1,936,577
Total Depreciable Assets	<u>187,097,892</u>	<u>16,413,095</u>	<u>2,649,945</u>	<u>200,861,042</u>
Less Accumulated Depreciation for:				
Bldg. and improvements	50,429,243	5,092,167	-	55,521,410
Furniture and fixtures	12,379,767	1,101,450	2,162,386	11,318,831
Automotive equipment	1,218,703	57,950	3,276	1,273,377
Total Accumulated Depreciation	<u>64,027,713</u>	<u>6,251,567</u>	<u>2,165,662</u>	<u>68,113,618</u>
Total Capital Assets, Net	<u>\$ 138,069,744</u>	<u>\$ 10,435,763</u>	<u>\$ 14,918,989</u>	<u>\$ 133,586,518</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE E - CHANGES IN CAPITAL ASSETS (Continued)

<u>Component Unit</u> <u>Charter Schools</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Non-Depreciable Assets:				
Land	\$ 150,912	\$ -	\$ -	\$ 150,912
Construction in progress	-	-	-	-
Total Non-Depreciable Assets	<u>150,912</u>	<u>-</u>	<u>-</u>	<u>150,912</u>
Depreciable Assets:				
Bldg. and improvements	4,975,189	33,221	-	5,008,410
Furniture and fixtures	72,156	80,946	-	153,102
Equipment	55,998	-	-	55,998
Vehicles	77,326	-	-	77,326
Total Depreciable Assets	<u>5,180,669</u>	<u>114,167</u>	<u>-</u>	<u>5,294,836</u>
Less Accumulated Depreciation for:				
Bldg. and improvements	577,041	72,087	-	649,128
Furniture and fixtures	37,006	22,987	-	59,993
Vehicles	70,080	7,246	-	77,326
Total Accumulated Depreciation	<u>684,127</u>	<u>102,320</u>	<u>-</u>	<u>786,447</u>
Total Capital Assets, Net	<u>\$ 4,647,454</u>	<u>\$ 11,847</u>	<u>\$ -</u>	<u>\$ 4,659,301</u>

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

Governmental activities:	
Direct instruction	\$ 1,238,935
Transportation	14,108
Custodial and maintenance	92,165
Other support services	4,906,359
Total Depreciation Expense - Governmental Activities	<u>\$ 6,251,567</u>

NOTE F - ACCRUED SALARIES AND P.E.R.A.

Salaries of certain contractually employed personnel are paid over a twelve month period, but are earned during the school year, a period of approximately nine months. The amounts representing accrued salaries are those earned through June 30, 2017, but not yet paid by the School District. Accrued P.E.R.A. represents the School District's 19.65% contribution on the accrued salaries. At June 30, 2017 accrued salaries and P.E.R.A. have been recognized as a liability in each of the affected funds.

The accrued salaries and P.E.R.A. by fund at June 30, 2017 were as follows:

General Fund	\$ 6,510,289
Governmental Designated-Purpose Grants Fund	406,457
Food Service Enterprise Fund	179,341
Pupil Athletic Fund	97,053
Component Unit - Charter Schools	153,197
Total Accrued Salaries and P.E.R.A.	<u>\$ 7,346,337</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions

Pueblo County School District No. 70 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 Pueblo County School District No. 70 are provided with pensions through the School Division Trust Fund (SCHDTF) - a cost sharing multiple employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

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

The lifetime retirement 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 the 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 the 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 the 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 the contributions were made.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided (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 the service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions

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

	<u>For the Year Ended December 31, 2016</u>	<u>For the Year Ended December 31, 2017</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. § 24-51-208 (1)(f)	(1.02)%	(1.02)%
Amount apportioned to SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED as specified in C.R.S. § 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	4.50%	5.00%
Total Employer Contribution Rate to the SCHDTF	18.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the primary government were \$7,402,323 and \$550,475 from the component unit for the year ended June 30, 2017.

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

At June 30, 2017 Pueblo County School District No. 70 reported a liability of \$255,845,307 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportionate share of the net pension liability was based on the District's contributions to the SCHDTF for calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the District's proportion was .8594107336%, which was an increase of .0153470397% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$41,069,272. At June 30, 2017, the District reported deferred outflows of the resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

<u>Primary Government</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Difference between expected and actual experience	\$ 4,471,512	\$ 4,097
Changes of assumptions or other inputs	71,920,797	21,129
Net difference between projected and actual earnings on pension plan investments	15,819,108	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,533,584	824,858
Contributions subsequent to the measurement date	<u>3,863,593</u>	<u>-</u>
Total	<u>\$ 97,608,594</u>	<u>\$ 850,084</u>
 <u>Component Unit</u>		
Difference between expected and actual experience	\$ 262,741	\$ 208
Changes of assumptions or other inputs	5,719,878	83,293
Net difference between projected and actual earnings on pension plan investments	929,892	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,618,448	423,644
Contributions subsequent to the measurement date	<u>282,064</u>	<u>-</u>
Total	<u>\$ 8,813,023</u>	<u>\$ 507,145</u>

\$3,863,593 for the primary government and \$282,064 for the component unit reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	<u>Primary Government</u>	<u>Component Unit</u>
2018	\$ 26,077,489	\$ 3,663,894
2019	26,022,696	2,416,011
2020	29,083,063	1,575,865
2021	11,711,669	367,072
2022	<u>-</u>	<u>972</u>
	<u>\$ 92,894,917</u>	<u>\$ 8,023,814</u>

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

Actuarial cost method	Entry age
Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increase, including wage inflation	3.90% - 10.10%
Long-term investment rate of return, net pension plan investment expense including price inflation	7.50%
Discount rate	7.50%
Post-retirement benefit increases:	
PERA benefit structure hired before January 1, 2007;	2.00%
PERA benefit structure hired after December 31, 2006	
(ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE G -DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE G -DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.5 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class.

These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE G -DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Pueblo County School District No. 70 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
<u>Primary Government</u>			
Proportionate share of the net pension liability	\$ 321,717,252	\$ 255,845,307	\$ 202,194,992
<u>Component Unit</u>			
Proportionate share of the net pension liability	\$ 23,237,711	\$ 18,479,765	\$ 14,604,591

Pension Plan Fiduciary Net Position

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

NOTE H - DEFINED CONTRIBUTION PENSION PLAN

Voluntary Investment Program

Plan Description

Employees of Pueblo County School District No. 70 that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, and Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the plan. That report can be found at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. For the year ended June 30, 2017, program members contributed \$318,269 for the Voluntary Investment Program.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description

Pueblo County School District No. 70 contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefits provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE H - DEFINED CONTRIBUTION PENSION PLAN (Continued)

Funding Policy

Pueblo County School District No. 70 is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for Pueblo County School District are established under the Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S. as amended. For the years ending June 30, 2017, 2016 and 2015 the District's contributions to the HCTF were \$420,751, \$390,738 and \$383,596, respectively, equal to their required contributions for each year.

NOTE I - CAPITAL LEASES AND OTHER LONG-TERM OBLIGATIONS

The District has entered into several capital lease agreements for the purchase of equipment and other assets. The lease terms range from 4 to 10 years with interest ranging from 5.1% to 7.5%. The District has also issued a Quality Zone Academy Bonds with a final maturity in 2023 and interest at .59% for the purchase of computer and related technology equipment. Build America Bonds with a final maturity in 2031 and interest at 5.5% for building improvements. In January 2015 the District issued certificates of participation (Cops) with interest rates ranging from 1.5% to 3.75% and final maturity in 2034. The Cops were issued to finance building improvements. Other long-term obligations include accrued compensated absences and a Colorado Department of Education (CDE) funding adjustment. A summary of the changes for the fiscal year follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>	<u>Current Portion</u>
<u>Governmental Activities</u>					
Capital Leases:					
Vehicles and equipment	\$ 1,208,634	\$ 211,594	\$ 600,936	\$ 819,292	\$ 676,433
Quality Zone Academy Bonds	1,468,341	-	356,000	1,112,341	181,000
Build America Bonds	4,565,724	-	278,010	4,287,714	295,885
Certificates of Participation	7,770,000	-	345,000	7,425,000	350,000
Compensated absences	600,134	22,507	-	622,641	-
CDE Funding	143,419	41,961	143,419	41,961	-
Total Governmental Activities	\$ 15,756,252	\$ 276,062	\$ 1,723,365	\$ 14,308,949	\$ 1,503,318
<u>Component Unit Activities</u>					
Bond payable	\$ 3,620,000	\$ -	\$ 50,000	\$ 3,570,000	\$ 55,000
Discount	(36,800)	-	(9,200)	(27,600)	-
Total Component Unit Activities	\$ 3,583,200	\$ -	\$ 40,800	\$ 3,542,400	\$ 55,000

In July 2014, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$3,680,000 of Charter School Revenue Bonds, Series 2015. Proceeds from the bonds were used for the construction of the Academy's new facility. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at 5.7%. Interest payments are due semi-annually on May 15 and November 15 and principal payments are due annually on November 14. The bonds mature in November 2020.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE I - CAPITAL LEASES AND OTHER LONG-TERM OBLIGATIONS (Continued)

The component unit revenue bonds payable has the following maturities:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 55,000	\$ 201,923	\$ 256,923
2019	60,000	198,646	258,646
2020	<u>3,455,000</u>	<u>98,468</u>	<u>3,553,468</u>
Total	\$ <u>3,570,000</u>	\$ <u>499,037</u>	\$ <u>4,069,037</u>

For financial reporting purposes, the School District follows the requirements of GAAP. For capital leases the present value of minimum lease payments is shown as a liability and related assets are capitalized in the basic financial statements. It is the expectation that the leases will be renewed annually until title to the related property is acquired pursuant to the leases.

The assets acquired through capital leases which have outstanding balances are as follows:

	<u>Governmental Activities</u>
Equipment	\$ 7,549,013
Less: Accumulated depreciation	<u>2,414,544</u>
Total	\$ <u>9,963,557</u>

Capital leases and other long-term obligations have the following minimum annual lease payments:

Fiscal Year Ending	Governmental Funds					
	Capital Leases		Quality Zone Academy		Build America Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 676,433	\$ 19,854	\$ 181,000	\$ 6,563	\$ 295,885	\$ 275,323
2019	70,516	3,700	183,000	5,495	314,911	256,297
2020	72,343	1,874	185,000	4,415	335,162	236,046
2021	-	-	186,000	3,324	356,719	214,490
2022	-	-	188,000	2,226	379,665	191,544
2023 - 27	-	-	189,341	1,117	1,715,897	575,808
2028 - 31	-	-	-	-	<u>889,475</u>	<u>122,166</u>
Total	\$ <u>819,292</u>	\$ <u>25,428</u>	\$ <u>1,112,341</u>	\$ <u>23,140</u>	\$ <u>4,287,714</u>	\$ <u>1,871,674</u>

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE I - CAPITAL LEASES AND OTHER LONG-TERM OBLIGATIONS (Continued)

Minimum annual lease payments (continued)

Fiscal Year	COPS	
	Principal	Interest
Ending		
2018	\$ 350,000	\$ 230,302
2019	360,000	225,152
2020	365,000	218,302
2021	370,000	210,637
2022	380,000	201,850
2023 - 27	2,065,000	846,715
2028 - 32	2,435,000	479,250
2033	1,100,000	62,252
Total	\$ 7,425,000	\$ 2,474,460

NOTE J - GENERAL OBLIGATION BONDS

General obligation bonds payable and payments on the bonds for the fiscal year ended June 30, 2017 are comprised of the following:

\$26,400,000 2001 Series General Obligation Refunding bonds, due in semi-annual installments with annual payments ranging from \$120,000 to \$3,985,000 through December 1, 2019. Interest rates range from 3.25% - 5.0%.	\$ 11,395,000
\$17,095,000 2010 Series General Obligation Refunding Bonds, due in semi-annual installments with annual payments ranging from \$80,000 to \$2,040,000 through December 1, 2022. Interest rate 2.984%.	10,970,000
\$8,790,000 2011 Series General Obligation Refunding Bonds, due in semi-annual installments with annual payments ranging from \$1,100,000 to \$2,040,000 through December 2, 2010. Interest rates range from 2.0% to 4.0%.	1,100,000
\$59,545,000 2013 Series General Obligation Bonds, due in semi-annual installments with annual payments ranging from \$905,000 to \$5,800,000 through December 1, 2032. Interest rates range from 2.0% to 5%.	57,480,000
	<u>\$ 80,945,000</u>

	July 1, 2016	Issued	Retired	June 30, 2017	Current Portion
General Obligation Bonds					
Refunding 2001	\$ 11,395,000	\$ -	\$ -	\$ 11,395,000	\$ 3,615,000
Refunding 2010	12,560,000	-	1,590,000	10,970,000	1,640,000
Refunding 2011	3,640,000	-	2,540,000	1,100,000	-
Building 2013	58,385,000	-	905,000	57,480,000	-
Unamortized premiums	5,391,591	-	366,549	5,025,042	-
Totals	\$ 91,371,591	\$ -	\$ 5,401,549	\$ 85,970,042	\$ 5,255,000

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE J - GENERAL OBLIGATION BONDS (Continued)

Future years repayment schedule:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,255,000	\$ 3,255,622	\$ 8,510,622
2019	5,485,000	3,005,369	8,490,369
2020	5,760,000	2,724,244	8,484,244
2021	4,960,000	2,486,681	7,446,681
2022	5,150,000	2,287,669	7,437,669
2023 - 2027	25,990,000	8,195,744	34,185,744
2028 - 2032	23,450,000	3,274,119	26,724,119
2033	4,895,000	76,484	4,971,484
Total	\$ 80,945,000	\$ 25,305,932	\$ 106,250,932

The bonds are secured by the School District's covenant to certify a rate of levy sufficient to meet the principal and interest payments with respect to the bonds. Payment of principal and interest for general obligation bonds is made from the Bond Redemption Fund.

NOTE K - INTERFUND RECEIVABLES AND PAYABLES

A summary of the interfund receivables and payables at June 30, 2017 as reported in the balance sheet for government funds follows:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 726,525	\$ 1,352,390
Nonmajor Governmental Funds	-	701,105
Fiduciary Fund	-	2,000
Component Unit	1,352,390	23,420
Total All Funds	\$ 2,078,915	\$ 2,078,915

The General Fund receivable is a result of financing programs in other funds. The General Fund payable is a result of per pupil funding allocations. Other balances are a result of miscellaneous reimbursements.

NOTE L - INTERFUND TRANSFERS

Transfers and allocations 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 or to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers during the fiscal year ending June 30, 2017 consisted of transfers and allocations to nonmajor governmental funds from the general fund in the amount of \$945,000.

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

NOTE M - FUND BALANCES

Government-wide and Proprietary Fund Net Assets:

Government-wide and proprietary fund net positions are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position – consist of net position that is restricted by the District’s creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

Governmental Fund Balances

Beginning with fiscal year June 30, 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definition.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

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

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

The specific purposes for each fund balance classification on the balance sheet are detailed in the table below:

NOTES TO FINANCIAL STATEMENTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
 June 30, 2017

NOTE M - FUND BALANCES (Continued)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances					
Nonspendable					
Inventory	\$ 41,659	\$ -	\$ -	\$ 67,489	\$ 109,148
Restricted					
Tabor reserve	1,982,800	-	-	86,400	2,069,200
Preschool reserve	21,595	-	-	-	21,595
Capital spending	-	-	-	-	0
Debt service	-	12,640,155	-	-	12,640,155
Total Restricted	<u>2,004,395</u>	<u>12,640,155</u>	<u>-</u>	<u>86,400</u>	<u>14,730,950</u>
Assigned					
Capital reserve	228,569	-	-	-	228,569
Insurance reserve	461,775	-	-	-	461,775
Food service	-	-	-	553,720	553,720
Designated grants	-	-	-	432,617	432,617
Athletic fund	-	-	-	51,701	51,701
Total Assigned	<u>690,344</u>	<u>-</u>	<u>-</u>	<u>1,038,038</u>	<u>1,728,382</u>
Unassigned					
General Government	6,295,305	-	(197,483)	-	6,097,822
Total Fund Balances	<u>\$ 9,031,703</u>	<u>\$ 12,640,155</u>	<u>\$ (197,483)</u>	<u>\$ 1,191,927</u>	<u>\$ 22,666,302</u>

NOTE N - JOINT VENTURE

The School District is a participant with other school districts in a joint venture known as South Central Board of Cooperative Educational Services (Cooperative). The Cooperative is organized under provisions of Colorado law to provide special education services to member school districts in the Cooperative's general area. The member school districts provided approximately 7% of the Cooperative's total annual local resources and each member district appoints a member of its Board of Education to serve on the governing body of the Cooperative. For the year ended June 30, 2017, the District provided \$7,800 to the Cooperative. Complete financial statements for the Cooperative can be obtained from their administrative office at 323 South Purcell Boulevard, Pueblo West, Colorado, 81007.

NOTE O - COMMITMENTS AND CONTINGENCIES

Tax, Revenue, Spending and Debt Limitation

In November, 1992 Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR imposes tax raising, revenue, spending and debt limitations on local government entities within the State of Colorado. These limitations became effective for the first fiscal year beginning after December 31, 1992, which for the School District was the year ended June 30, 1994.

On November 4, 1997, the School District passed a referendum regarding the revenue and spending limits imposed by Article X, section 20 of the Colorado constitution. The referendum allows the District, without increasing or adding any taxes of any kind, to collect, retain and expend all revenues and other funds collected during 1997 and thereafter.

The amendment is complex and subject to judicial interpretation. The School District has made certain interpretations of the amendment's language in order to determine its compliance. The School District believes it is in compliance with the tax raising, revenue, spending, debt and other limitations.

NOTES TO FINANCIAL STATEMENTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

June 30, 2017

NOTE O - COMMITMENTS AND CONTINGENCIES (Continued)

Tax, Revenue, Spending and Debt Limitation (Continued)

In addition to the tax raising, revenue, spending and debt limitation provisions of TABOR, there is also a requirement that every entity to which TABOR applies establish an "emergency reserve". To be used for declared emergencies only, each entity must reserve 3% or more of its fiscal year spending excluding bonded debt service. For the year ended June 30, 2017, the School District's reserve requirement was approximately \$2,069,200 and \$180,000 for its component units which represents 3% of fiscal year spending. The District has recognized the emergency reserve in the Insurance Reserve Fund, the Preschool Fund, the Capital Reserve Fund, the Designated Grants Fund, the Food Service Fund, the Athletic Fund and the Component Unit.

Federal and State Grants

Federal and State grants are subject to audit by the grantor agencies and any adjustments may become a liability of the appropriate fund. Management believes these adjustments, if any, will not materially affect the District's results of operations or financial position.

Economic Dependency

Funding provided by the State to all public school systems in Colorado is primarily based upon the October 1 student count. The State provided \$49,772,206, which represents approximately 59% of the District's total governmental fund revenues for the year.

Arbitrage Liability

The School District issued general obligation bonds for the purpose of financing voter approved capital construction projects. An arbitrage liability is the requirement to refund a portion of the investment earnings on bond proceeds temporarily invested until construction payments are made if certain statutory spend down requirements are not met. The potential arbitrage liability is not yet determinable. When such a liability, if any, is determined it would be recorded in the government-wide statement of net assets as long-term debt until it is required to be refunded to the Federal government and becomes a current liability.

NOTE P - NET CHANGES IN AGENCY FUNDS

	<u>Original Budget</u>		<u>Final Budget</u>		<u>Actual</u>
Funds Held - June 30, 2016	\$ -		\$ -		\$ 1,158,275
Revenue	2,913,894		2,913,894		1,789,372
Expenditures	<u>2,913,894</u>		<u>2,913,894</u>		<u>1,835,244</u>
Funds Held - June 30, 2017	<u>\$ -</u>		<u>\$ -</u>		<u>\$ 1,112,403</u>

The fund balance as of June 30, 2017 on the District's general ledger is reported as the Statement of Fiduciary Net Position.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	Budgeted Amount		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
Revenues				
Local property tax	\$ 17,627,631	\$ 17,884,984	\$ 18,284,280	\$ 399,296
Specific ownership tax	1,400,835	1,484,692	2,415,784	931,092
State sources	49,084,772	49,341,743	49,597,434	255,691
Federal sources	1,005,808	1,005,808	1,153,758	147,950
Other sources	730,134	740,259	1,369,313	629,054
Fund allocations	<u>(5,275,541)</u>	<u>(5,435,916)</u>	<u>(5,756,813)</u>	<u>(320,897)</u>
Total Revenues	<u>64,573,639</u>	<u>65,021,570</u>	<u>67,063,756</u>	<u>2,042,186</u>
Expenditures				
Direct instruction	37,268,031	38,172,114	36,432,611	1,739,503
Indirect instruction	13,980,657	15,158,076	14,526,764	631,312
Transportation	2,500,905	2,504,605	2,436,243	68,362
Custodial and maintenance	4,310,295	4,408,557	4,382,477	26,080
Other support services	3,526,510	3,513,214	3,656,051	(142,837)
General administration	583,045	573,305	549,797	23,508
Capital outlay	413,670	413,670	834,519	(420,849)
Debt service:				
Principal retirement	459,079	1,358,593	1,723,365	(364,772)
Interest and fiscal charges	1,367,973	509,746	574,293	(64,547)
Contingency	<u>2,640,321</u>	<u>4,639,494</u>	<u>-</u>	<u>4,639,494</u>
Total Expenditures	<u>67,050,486</u>	<u>71,251,374</u>	<u>65,116,120</u>	<u>6,135,254</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,476,847)</u>	<u>(6,229,804)</u>	<u>1,947,636</u>	<u>8,177,440</u>
Other Financing Sources (Uses)				
Transfers to other funds	(1,043,781)	(1,343,781)	(945,000)	398,781
Transfers from other funds	-	-	-	-
Proceeds from capital lease	<u>-</u>	<u>-</u>	<u>211,594</u>	<u>211,594</u>
Total Other Financing Sources (Uses)	<u>(1,043,781)</u>	<u>(1,343,781)</u>	<u>(733,406)</u>	<u>610,375</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(3,520,628)</u>	<u>(7,573,585)</u>	<u>1,214,230</u>	<u>8,787,815</u>
Fund Balances - July 1	<u>3,520,628</u>	<u>7,573,585</u>	<u>7,817,473</u>	<u>243,888</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,031,703</u>	<u>\$ 9,031,703</u>

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Primary Government				
School's proportion (percentage) of the net pension liability	0.85941073360%	0.84404636939%	0.8709059842%	0.8762041253%
School's proportionate share of the net pension liability	\$ 255,845,307	\$ 129,059,082	\$ 118,019,596	\$ 111,759,600
School's covered-employee payroll	\$ 40,257,198	\$ 37,389,300	\$ 36,719,056	\$ 36,636,231
School's proportionate share of the net pension liability as a percentage of covered-employee payroll	635.53%	345.18%	321.41%	305.05%
Plan fiduciary net position as a percentage of the total pension liability	43.10%	59.20%	62.80%	64.06%
Connect Charter School - Component Unit				
School's proportion (percentage) of the net pension liability	0.02107794920%	0.02102697560%	0.0203314245%	0.0238526492%
School's proportionate share of the net pension liability	\$ 6,274,888	\$ 3,215,095	\$ 2,755,184	\$ 3,042,399
School's covered-employee payroll	\$ 988,197	\$ 927,496	\$ 888,415	\$ 907,305
School's proportionate share of the net pension liability as a percentage of covered-employee payroll	634.98%	346.64%	310.12%	335.32%
Plan fiduciary net position as a percentage of the total pension liability	43.10%	59.20%	62.80%	64.06%
Swallows Academy - Component Unit				
School's proportion (percentage) of the net pension liability	0.0410%	0.0378%	0.0399000000%	Not
School's proportionate share of the net pension liability	\$ 12,204,877	\$ 5,781,491	\$ 5,413,115	Determined by
School's covered-employee payroll	\$ 1,839,444	\$ 1,647,388	\$ 1,563,473	Swallows
School's proportionate share of the net pension liability as a percentage of covered-employee payroll	663.50%	350.90%	346.20%	Academy
Plan fiduciary net position as a percentage of the total pension liability	43.10%	59.20%	62.80%	

The amounts presented for each fiscal year were determined as of December 31.

The schedule is presented to show information for ten years. Until information for the full ten-year period is available, information will be presented for the years it is available.

SCHEDULE OF DISTRICT'S CONTRIBUTIONS AND RELATED PARTIES

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary Government				
Statorily required contributions	\$ 7,402,323	\$ 6,632,003	\$ 6,142,030	\$ 5,785,691
Contributions in relation to the statorily required contributions	<u>7,402,323</u>	<u>6,632,003</u>	<u>6,142,030</u>	<u>5,785,691</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 40,257,198	\$ 37,389,300	\$ 36,719,056	\$ 36,636,231
Contribution as a percentage of covered-employee payroll	18.39%	17.73%	16.73%	15.79%
Connect Charter School - Component Unit				
Statorily required contributions	\$ 181,687	\$ 164,441	\$ 150,035	\$ 144,879
Contributions in relation to the statorily required contributions	<u>181,687</u>	<u>164,441</u>	<u>150,035</u>	<u>144,879</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 988,197	\$ 927,496	\$ 888,415	\$ 907,305
Contribution as a percentage of covered-employee payroll	18.39%	17.73%	16.89%	15.97%
Swallows Academy - Component Unit				
Statorily required contributions	\$ 368,788	\$ 325,424	\$ 289,100	\$ 261,027
Contributions in relation to the statorily required contributions	<u>368,788</u>	<u>325,424</u>	<u>289,100</u>	<u>261,027</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,900,850	\$ 1,734,075	\$ 1,614,650	\$ 1,559,857
Contribution as a percentage of covered-employee payroll	19.40%	18.77%	17.90%	16.73%

The amounts presented for each fiscal year were determined as of June 30.

The schedule is presented to show information for ten years. Until information for the full ten year period is available, information will be presented for the years it is available.

COMBINING FUND STATEMENTS

NON MAJOR FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	<u>Food Service</u> <u>Fund</u>	<u>Pupil</u> <u>Athletic</u> <u>Fund</u>	<u>Governmental</u> <u>Designated</u> <u>Purpose Grants</u> <u>Fund</u>	<u>Totals</u>
<u>Assets</u>				
Cash in bank and on hand	\$ 526,805	\$ 196,873	\$ 318,139	\$ 1,041,817
Investments at fair value	212	-	50,993	51,205
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Accrued federal revenue	270,819	-	792,520	1,063,339
Inventories	67,489	-	-	67,489
	<u>865,325</u>	<u>196,873</u>	<u>1,161,652</u>	<u>2,223,850</u>
Total Assets				
<u>Liabilities</u>				
Accounts payable	24,375	5,278	37,075	66,728
Accrued salaries and P.E.R.A.	179,341	97,053	406,457	682,851
Due to other funds	-	341	188,093	188,434
Unearned revenue	-	-	93,910	93,910
	<u>203,716</u>	<u>102,672</u>	<u>725,535</u>	<u>1,031,923</u>
Total Liabilities				
<u>Fund Balance</u>				
Nonspendable	67,489	-	-	67,489
Restricted	40,400	42,500	3,500	86,400
Assigned	553,720	51,701	432,617	1,038,038
	<u>661,609</u>	<u>94,201</u>	<u>436,117</u>	<u>1,191,927</u>
Total Fund Balances				

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

	Food Service Fund	Pupil Athletic Fund	Governmental Designated Purpose Grants Fund	Totals
Revenues				
State sources	\$ 62,890	\$ -	\$ 111,882	\$ 174,772
Federal sources	2,403,803	-	3,353,710	5,757,513
Other sources	1,361,712	454,809	242,275	2,058,796
Fund allocations	-	-	-	-
Total Revenues	<u>3,828,405</u>	<u>454,809</u>	<u>3,707,867</u>	<u>7,991,081</u>
Expenditures				
Direct instruction	-	1,262,148	2,355,768	3,617,916
Indirect instruction	-	-	965,115	965,115
Transportation	-	157,544	-	157,544
Custodial and maintenance	8,891	-	-	8,891
Other support services	3,619,680	723	60,658	3,681,061
General administration	-	-	63,381	63,381
Capital outlay	11,308	9,375	222,513	243,196
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>3,639,879</u>	<u>1,429,790</u>	<u>3,667,435</u>	<u>8,737,104</u>
Excess of Revenues Over (Under) Expenditures	<u>188,526</u>	<u>(974,981)</u>	<u>40,432</u>	<u>(746,023)</u>
Other Financing Sources (Uses)				
Transfer to other funds	-	-	-	-
Transfers from other funds	-	945,000	-	945,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>945,000</u>	<u>-</u>	<u>945,000</u>
Net Change in Fund Balance	188,526	(29,981)	40,432	198,977
Fund Balances - July 1	<u>473,083</u>	<u>124,182</u>	<u>395,685</u>	<u>992,950</u>
Fund Balances - June 30	<u>\$ 661,609</u>	<u>\$ 94,201</u>	<u>\$ 436,117</u>	<u>\$ 1,191,927</u>

**OTHER SUPPLEMENTARY
INFORMATION**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
PUPIL ATHLETIC FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
Revenues				
Other sources	\$ 490,474	\$ 490,474	\$ 454,809	\$ (35,665)
Expenditures				
Direct instruction	1,338,175	1,634,975	1,262,148	372,827
Indirect instruction	-	-	-	-
Transportation	184,580	187,780	157,544	30,236
Other support services	1,500	1,500	723	777
Capital outlay	-	-	9,375	(9,375)
Total Expenditures	<u>1,524,255</u>	<u>1,824,255</u>	<u>1,429,790</u>	<u>394,465</u>
Excess of Revenues Over (Under) Expenditures	(1,033,781)	(1,333,781)	(974,981)	358,800
Other Financing Sources (Uses)				
Transfers from other funds	<u>1,033,781</u>	<u>1,333,781</u>	<u>945,000</u>	<u>(388,781)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(29,981)	(29,981)
Fund Balances - July 1	<u>-</u>	<u>-</u>	<u>124,182</u>	<u>124,182</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,201</u>	<u>\$ 94,201</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
GOVERNMENTAL DESIGNATED-PURPOSE GRANTS FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget
				Favorable
				(Unfavorable)
Revenues				
Federal sources	\$ 3,991,689	\$ 4,067,118	\$ 3,353,710	\$ (713,408)
State sources	-	-	111,882	111,882
Other sources	<u>913,805</u>	<u>913,805</u>	<u>242,275</u>	<u>(671,530)</u>
Total Revenues	<u>4,905,494</u>	<u>4,980,923</u>	<u>3,707,867</u>	<u>(1,273,056)</u>
Expenditures				
Direct instruction	3,760,674	3,596,041	2,355,768	1,240,273
Indirect instruction	1,070,187	1,308,586	965,115	343,471
Custodial and maintenance	-	-	-	-
Other support services	57,176	58,839	60,658	(1,819)
General administration	17,457	17,457	63,381	(45,924)
Capital outlay	-	-	222,513	(222,513)
Debt service:				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>4,905,494</u>	<u>4,980,923</u>	<u>3,667,435</u>	<u>1,313,488</u>
Excess of Revenues Over (Under) Expenditures	-	-	40,432	40,432
Fund Balances - July 1	<u>-</u>	<u>-</u>	<u>395,685</u>	<u>395,685</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 436,117</u>	<u>\$ 436,117</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
DEBT SERVICE FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	Budgeted Amount			Variance With Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 8,579,742	\$ 8,579,742	\$ 8,689,329	\$ 109,587
Other sources	35,000	35,000	29,481	(5,519)
Total Revenues	8,614,742	8,614,742	8,718,810	104,068
Expenditures				
Debt service:				
Principal retirement	5,035,000	5,035,000	5,035,000	-
Interest and fiscal charges	3,447,950	3,447,950	3,441,325	6,625
Contingency	131,792	131,792	-	131,792
Total Expenditures	8,614,742	8,614,742	8,476,325	138,417
Excess of Revenues Over (Under) Expenditures	-	-	242,485	242,485
Fund Balances - July 1	-	-	12,397,670	12,397,670
Fund Balances - June 30	\$ -	\$ -	\$ 12,640,155	\$ 12,640,155

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
CAPITAL PROJECTS FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State sources	\$ -	\$ -	\$ -	\$ -
Other sources	-	-	2,346	2,346
Total Revenues	<u>-</u>	<u>-</u>	<u>2,346</u>	<u>2,346</u>
Expenditures				
Other support services	-	102,780	94,709	8,071
Capital Outlay	1,805,595	1,702,815	1,234,910	467,905
Total Expenditures	<u>1,805,595</u>	<u>1,805,595</u>	<u>1,329,619</u>	<u>475,976</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,805,595)</u>	<u>(1,805,595)</u>	<u>(1,327,273)</u>	<u>478,322</u>
Other Financing Sources (Uses)				
Bond proceeds	1,805,595	1,805,595	-	(1,805,595)
Premium on issuance	-	-	-	-
Total Other Financing Sources (Uses)	<u>1,805,595</u>	<u>1,805,595</u>	<u>-</u>	<u>(1,805,595)</u>
Net Change in Fund Balances	-	-	(1,327,273)	(1,327,273)
Fund Balances - July 1	<u>-</u>	<u>-</u>	<u>1,129,790</u>	<u>1,129,790</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (197,483)</u>	<u>\$ (197,483)</u>

STATEMENT OF REVENUES EXPENSES AND CHANGE IN NET ASSETS
BUDGET AND ACTUAL (BUDGET BASIS)
FOOD SERVICE FUND
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Budgeted Amount</u>			Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal sources	\$ 2,195,000	\$ 2,195,000	\$ 2,403,803	\$ 208,803
State sources	114,800	114,800	62,890	(51,910)
Local sources	<u>1,590,200</u>	<u>1,590,200</u>	<u>1,361,712</u>	<u>(228,488)</u>
Total Revenues	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,828,405</u>	<u>(71,595)</u>
Expenditures				
Transportation	-	-	-	-
Custodial and maintenance	8,000	8,000	8,891	(891)
Other support services	3,800,000	3,800,000	3,619,680	180,320
Capital outlay	<u>92,000</u>	<u>92,000</u>	<u>11,308</u>	<u>80,692</u>
Total Expenditures	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,639,879</u>	<u>260,121</u>
Excess of Revenues Over (Under) Expenditures	-	-	188,526	188,526
Fund Balances - July 1 (Restated)	<u>-</u>	<u>-</u>	473,083	473,083
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 661,609</u>	<u>\$ 661,609</u>

COMBINING BALANCE SHEET
COMPONENT UNIT - CHARTER SCHOOLS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
June 30, 2017

	<u>Connect School</u>	<u>Swallows Charter Academy</u>	<u>Total Charter Schools</u>
<u>Assets</u>			
Cash in bank and on hand	\$ 639,903	\$ 917,073	\$ 1,556,976
Due from the District	1,215,584	136,806	1,352,390
Accounts Receivable	-	9,848	9,848
Due from other funds	-	3,739	3,739
Prepaid Expenses	-	5,880	5,880
Total Assets	1,855,487	1,073,346	2,928,833
<u>Liabilities and Fund Balances</u>			
Accounts payable	8,130	58,632	66,762
Accrued salaries and P.E.R.A.	153,197	168,581	321,778
Due to the District	23,420	-	23,420
Total Liabilities	184,747	227,213	411,960
<u>Fund Balances</u>			
Nonspendable	-	5,880	5,880
Restricted - Tabor Reserve	56,500	123,500	180,000
Assigned - Charter School Operations	1,614,240	716,753	2,330,993
Total Fund Balances	\$ 1,670,740	\$ 846,133	\$ 2,516,873
 Amounts reported for component unit activities in the statement of net position are different because:			
Component Unit Total Fund Balances	\$ 1,670,740	\$ 846,133	\$ 2,516,873
Capital assets, net of depreciation	15,237	1,246,781	1,262,018
Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Contributions subsequent to measurement date, the difference between expected and actual investment earnings.	2,490,919	6,322,104	8,813,023
Internal service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.	-	38,453	38,453
Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Difference between expected and actual experience and the change in proportionate share.	(452,000)	(55,145)	(507,145)
The long-term liability for pension is not due and payable in the current period and therefore, not reported in the governmental funds.	(6,274,888)	(12,204,877)	(18,479,765)
Net Position of Component Unit Activities	\$ (2,549,992)	\$ (3,806,551)	\$ (6,356,543)

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

COMPONENT UNIT - CHARTER SCHOOLS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

	<u>Connect School</u>	<u>Swallows Charter Academy</u>	<u>Total Charter Schools</u>
Revenues			
Other sources	\$ 29,123	\$ -	\$ 29,123
Local sources	-	4,075,137	4,075,137
Federal and State sources	-	143,357	143,357
Fund allocations	<u>1,798,927</u>	<u>-</u>	<u>1,798,927</u>
Total Revenues	<u>1,828,050</u>	<u>4,218,494</u>	<u>6,046,544</u>
Expenditures			
Direct instruction	1,070,470	2,143,440	3,213,910
Indirect instruction	476,731	-	476,731
Custodial and maintenance	72,865	-	72,865
Other support services	33,013	1,796,410	1,829,423
General administration	27,755	-	27,755
Capital outlay	<u>5,344</u>	<u>-</u>	<u>5,344</u>
Total Expenditures	<u>1,686,178</u>	<u>3,939,850</u>	<u>5,626,028</u>
Excess of Revenues Over (Under) Expenditures	141,872	278,644	420,516
Fund Balances - July 1	<u>1,528,868</u>	<u>567,489</u>	<u>2,096,357</u>
Fund Balances - June 30	<u>\$ 1,670,740</u>	<u>\$ 846,133</u>	<u>\$ 2,516,873</u>
Amounts reported for component unit activities in the statement of activities are different because:			
Component Unit Net change in Fund Balances	\$ 141,872	\$ 278,644	\$ 420,516
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities	-	26,015	26,015
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense.	2,406	10,620	13,026
Net pension related items are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	<u>(992,596)</u>	<u>(3,384,440)</u>	<u>(4,377,036)</u>
Change in Net Position of Component Unit Activities	<u>\$ (848,318)</u>	<u>\$ (3,069,161)</u>	<u>\$ (3,917,479)</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
CONNECT SCHOOL
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues				
Other sources	\$ -	\$ -	\$ 29,123	\$ 29,123
Fund allocations	<u>1,718,669</u>	<u>1,703,174</u>	<u>1,798,927</u>	<u>95,753</u>
Total Revenues	<u>1,718,669</u>	<u>1,703,174</u>	<u>1,828,050</u>	<u>124,876</u>
Expenditures				
Direct instruction	1,360,459	1,407,350	1,070,470	336,880
Indirect instruction	405,204	463,543	476,731	(13,188)
Custodial and maintenance	43,653	42,357	72,865	(30,508)
Other support services	27,346	27,346	33,013	(5,667)
General administration	-	-	27,755	(27,755)
Capital outlay	80,000	80,000	5,344	74,656
Contingency	<u>1,322,115</u>	<u>1,202,686</u>	<u>-</u>	<u>1,202,686</u>
Total Expenditures	<u>3,238,777</u>	<u>3,223,282</u>	<u>1,686,178</u>	<u>1,537,104</u>
Excess of Revenues Over (Under) Expenditures	(1,520,108)	(1,520,108)	141,872	1,661,980
Fund Balances - July 1	<u>1,520,108</u>	<u>1,520,108</u>	<u>1,528,868</u>	<u>8,760</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,670,740</u>	<u>\$ 1,670,740</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
SWALLOWS CHARTER ACADEMY
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ -	\$ 71,825	\$ 85,822	\$ 13,997
Federal and state sources	134,258	135,351	143,357	8,006
Other	-	-	31,429	31,429
Fund allocations	<u>3,895,816</u>	<u>3,929,202</u>	<u>3,957,886</u>	<u>28,684</u>
Total Revenues	<u>4,030,074</u>	<u>4,136,378</u>	<u>4,218,494</u>	<u>82,116</u>
Expenditures				
Salaries	2,058,725	2,080,725	2,077,718	3,007
Employee benefits	654,047	658,656	529,914	128,742
Purchased services	1,037,801	1,082,180	995,007	87,173
Supplies and materials	176,000	144,000	135,323	8,677
Property	90,000	100,000	113,055	(13,055)
Other	<u>11,000</u>	<u>82,825</u>	<u>88,833</u>	<u>(6,008)</u>
Total Expenditures	<u>4,027,573</u>	<u>4,148,386</u>	<u>3,939,850</u>	<u>208,536</u>
Excess of Revenues Over (Under) Expenditures	2,501	(12,008)	278,644	290,652
Fund Balances - July 1	<u>567,489</u>	<u>567,489</u>	<u>567,489</u>	<u>-</u>
Fund Balances - June 30	<u>\$ 569,990</u>	<u>\$ 555,481</u>	<u>\$ 846,133</u>	<u>\$ 290,652</u>

COMPLIANCE SECTION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education			
Title 1 - Grants to Local Educational Agencies	84.010	4010	\$ 1,076,905
Migrant Education - State Grant Program	84.011	4011	562,120
Special Education - Grants to States	84.027	4027, 5027, 9027	1,429,064
Special Education - Preschool Grant	84.173	4173	14,918
Career and Technical Education - Basic Grants to States	84.048	4048	58,351
English Language Acquisition Grants	84.365	4365	20,808
Title II B - Mathematics and Science Partnership	84.366	5366	1,556
Improving Teacher Quality State Grants	84.367	4367	<u>189,987</u>
Total U.S. Department of Education			<u>3,353,709</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education			
School Breakfast Program	10.553	4553	659,981
National School Lunch Program	10.555	4555	1,710,355
Summer Food Service Program for Children	10.559	4559	<u>32,663</u>
Total U.S. Department of Agriculture			<u>2,402,999</u>
<u>Other Federal Assistance</u>			
Department of the Army			
ROTC Salary reimbursement	12.000	9001	<u>123,435</u>
Total Other Federal Assistance			<u>123,435</u>
Total Federal Assistance			<u>\$ 5,880,143</u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pueblo County School District No. 70 and is presented on the modified accrual basis of accounting for governmental fund types and the accrual basis of accounting for proprietary fund types. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

NOTE B - RISK BASED AUDIT APPROACH

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The District does qualify as a low-risk auditee.

NOTE C - FOOD DISTRIBUTION

Commodities donated to the District by the U.S. Department of Agriculture (USDA) of \$250,496 are valued based on the USDA's Donated Commodity Price List.

NOTE D - AMOUNTS AWARDED TO SUB-RECIPIENTS

Included in the total amount expended for the Migrant Education Grant (CFDA #84.011) is \$29,552 that was passed through to four sub-recipients that administered the program in their own Districts.

Garren, Ross & DeNardo, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

February 20, 2018

Board of Education
Pueblo County School District No. 70
Pueblo, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pueblo County School District No. 70 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, as items 2017-001 through 2017-007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-008.

Pueblo County School District No. 70's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gannen, Ross & DeMarzo, Inc.

Garren, Ross & DeNardo, Inc.

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Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

February 20, 2018

Board of Education
Pueblo County School District No. 70
Pueblo, Colorado

Report on Compliance for Each Major Federal Program

We have audited Pueblo County School District No. 70's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-008, that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harren, Ross & DeMando, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

SECTION I - SUMMARY OF AUDIT RESULTS

Type of auditor's report issued:		Unmodified	
Internal control over financial reporting:			
• Material weakness(es) identified?	___yes	___no	___x
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___xyes	___no	
Noncompliance material to financial statements noted?	___yes	___no	___x
<i>Federal Awards</i>			
Internal control over major programs:			
• Material weakness(es) identified?	___yes	___no	___x
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___xyes	___no	
Type of auditor's reported issued on compliance for major programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___xyes	___no	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.011	Migrant Education - State Grant Program
84.010	Title I - Grant to Local Education Agencies

Dollar threshold used to distinguish between type A and type B programs:		\$ 750,000	
Auditee qualified as low-risk auditee?	___xyes	___no	

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

2017-001 P Card Policy Violation

Condition and Context:

Purchases are not always being delivered to receipt's work location and proper documentation not always given to accounting to support purchases.

Criteria:

Policy should be followed when using the P Card for purchases.

Cause:

Policy is not being followed for all P Card purchases.

Effect:

When policy is not followed accounting must take additional steps to ensure that the item is accounted for and to verify the item was a valid purchase.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2017-001 P Card Policy Violation (Continued)

Recommendation:

Advising employees that have authority to use P Cards for purchasing that they follow policy.

Response:

The School District will review policy with all necessary employees.

2017-002 Bank Account Reconciliations

Condition and Context:

Not all bank reconciliations were correctly reconciled at year end.

Criteria:

Procedures for bank reconciliations need to be followed to ensure that the reconciliations are correct.

Cause:

Procedures were not always followed to determine that bank reconciliations agreed with the general ledger balances.

Effect:

Bank reconciliations not being correct could lead to financial statements being misstated.

Recommendation:

Review procedures to be followed on all bank reconciliations.

Response:

The District will follow current procedures and review all bank reconciliations for accuracy and completeness.

2017-003 Interfund Balances

Condition and Context:

The interfund balances were not in agreement at year end.

Criteria:

Reconciliations at year end were not done to ensure that the balances were correct and in balance.

Cause:

Entries made to the interfund accounts caused them to be out of balance.

Effect:

Interfund accounts not being in balance could result in interfund transactions not being recognized in the correct fund and accounting period.

Recommendation:

Procedures should be followed and all interfund accounts be reconciled monthly.

Response:

The District will follow procedures and reconcile all interfund accounts each month.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2017-004 Changes in Fixed Assets Should be Maintained on an On-going Basis
(Repeat Finding 16-01)

Condition and Context:

Changes in fixed assets resulting from current year additions and/or deletions should be maintained on an on-going basis.

Criteria:

Procedures should be performed to maintain changes in fixed assets on a monthly basis.

Cause:

The current procedures do not allow for timely review of current additions and/or deletions until after the fiscal year end.

Effect:

The volume of activity to review can delay the completion of the financial statements.

Recommendation:

A significant portion of the record keeping involved in accounting for the changes in fixed assets should be completed on a monthly basis rather than at or after the fiscal year end. Accuracy has improved but majority of work is still done at or after year end.

Response:

The School District fully implemented recommendation.

2017-005 Ticket sales at athletic and other similar events
(Repeat Finding 16-02)

Condition and Context:

The procedures and reports being used for ticket sales at athletic events and other similar events are not standardized and should include appropriate controls.

Criteria:

Additional procedures should be established to improve internal controls. We are not aware of a formal policy being adopted and communicated to all affected levels within the District.

Cause:

Procedures and controls were not always followed at various athletic events and other similar events.

Effect:

A failure to implement better controls could lead to misappropriation of funds.

Recommendation:

Standard reports should be developed and used at all locations for ticket sales at such events. This should include the use of pre-numbered tickets and related control over their access and distribution.

Response:

The District fully implemented recommendation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2017-006 Coding of Grant Revenues and Expenditures
(Repeat Finding 16-03)

Condition and Context:

The correct coding of grant revenues and expenditures, and reconciling the resulting general ledger totals to any reports required to be submitted to CDE or other granting/oversight agencies, should be improved. Grant administrators should verify their records are in agreement with the general ledger detail and any variances should be investigated and corrected, if necessary, on a timely basis.

Criteria:

Internal control procedures need to be improved to ensure proper coding and reconciling of grant revenue and expenditures.

Cause:

Internal control and procedures were not always followed to ensure that the grant revenue and expenditures were properly recorded.

Effect:

The financial statements would not reflect an accurate accounting of each grant revenue and expenditures.

Recommendation:

Improvements have been made in coding grant revenue and expenditures correctly. The internal control procedures should be followed to ensure that the expenditures are coded correctly and the reports filed to the granting agencies reconcile to the general ledger.

Response:

The School District will continue to make improvements and review their current procedures along with this recommendation.

2017-007 Balances Outstanding Between Funds Should be Cleared on a Timely Basis
(Repeat Finding 16-04)

Condition and Context:

Balances outstanding between the General Fund and Charter Schools to the Insurance Reserve and Capital Reserve Funds are not being cleared (paid) on a timely basis.

Criteria:

Procedures should be in place to ensure that the amounts outstanding from the previous fiscal year are paid as soon as possible and the allocations for the current year should be kept current.

Cause:

The current procedures are not allowing these balances to be cleared (paid) on a timely basis.

Effect:

Because the current procedures are not consistent, balances are not cleared (paid) on a timely basis.

Recommendation:

Improvements have been made. It is recommended that outstanding amounts from the previous fiscal year should be paid as soon as possible and the allocations for the current year be kept current.

Response:

The School District will review their current procedures along with this recommendation to address the timeliness of these payments.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

SECTION III - FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

2017-008 Reimbursement claim forms/reports

Condition and Context:

During a prior audit year some errors were discovered which resulted in expenditures being duplicated on the reimbursement requests, resulting in questioned costs of \$14,380. The mentioned questioned costs were repaid to the granting agency November 30, 2016. During the current year audit we had some instances of duplicating expenditures. We also identified a discrepancy on the reimbursement reports relating to the line "previously reported funds" which was overstated. This discrepancy resulted in the District not using their total grant award. The District has currently contacted the granting agency to try and rectify this discrepancy.

Criteria:

The current controls that the District have in place should be followed. The reimbursement forms should be reconciled to the detailed transactions recorded in the general ledger. The information reported on the reimbursement forms should be reviewed and verified for accuracy.

Cause:

The procedures were not followed to ensure that the underlying expenditures requested for reimbursement agreed with the general ledger. A review of the prepared requests were not reviewed fully to identify this error.

Effect:

The District did not use its total grant award and some expenditures were duplicated in requests.

Recommendation:

Reimbursement claim forms/reports submitted for government grants should be reconciled to the detailed transactions recorded in the general ledger and to previously submitted report totals prior to submitting such claims. The District has had this control in place for years in an effort to ensure that grant reporting is accurate and corresponds to general ledger totals reflected in the financial statements.

Response:

The School District will review their current procedures along with this recommendation.

SECTION IV - PRIOR YEAR FINDINGS

2016-005 Reimbursement claim forms/reports and pass-through entities

Condition and Context:

Some errors were discovered which resulted in expenditures being duplicated in reimbursement requests and some supporting documentation not being collected contemporaneously. These errors resulted in the District receiving more funding than the actual expenditures would justify. These amounts are required to be returned to the granting agency. Failure to complete these tasks could result in material errors which may not be discovered in a timely fashion and potentially become financially burdensome.

Recommendations:

Reimbursement claim forms/reports submitted for government grants should be reconciled to the detailed transactions recorded in the general ledger prior to submitting such claims. The District has had this control in place for years in an effort to ensure that grant reporting is accurate and corresponds to general ledger totals reflected in the financial statements. Further, proper supporting documentation must be received from pass-through entities to properly support their expenditures. This is required to adequately monitor sub-recipients activities where the program expenditures are sometimes made.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

SECTION IV - PRIOR YEAR FINDINGS (Continued)

2016-005 Reimbursement claim forms/reports and pass-through entities (Continued)

Current Status:

Partially Implemented see 2017-008.

The District returned \$14,380 in federal funds to the proper granting agency relating to prior audit year finding. The District is continuing to work on improving their procedures for accurate reporting and requests to the proper granting agency.

00-2 Coding Federal Expenditures

Condition:

Coding of federal expenditures in Designated Grant Fund could be improved.

Recommendation:

Internal control procedures need to be followed as implemented to ensure that the expenditures are coded correctly. Grant administrators should verify their records are in agreement with the general ledger detail and any variances should be investigated and corrected, if necessary, on a timely basis.

Current Status:

Partially implemented See Finding 2017-006

The finding was first reported in 2000. The District has improved but not fully implemented. Reports filed with granting agencies are not always reconciled to the general ledger detail on a timely basis.

SCHEDULE OF FISCAL YEAR SPENDING COMPUTATIONS
PURSUANT TO ARTICLE X, SECTION 20
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

1.	Total Fiscal Year Expenditures for All Funds Listed (Expenditures, plus changes in fund balances, less transfers)		
	a. General Fund (includes Preschool, Insurance Reserve and Capital Reserve Funds)	\$ 66,776,519	
	b. Governmental Designated-Purpose Grants Fund	3,707,867	
	c. Pupil Athletic Fund (Special Revenue Funds)	1,429,790	
	d. Bond Redemption Fund	8,476,325	
	e. Food Service Fund	3,828,405	
	f. Charter Schools (Connect School only)	1,828,050	
	g. Capital Projects Funds	<u>1,329,619</u>	
	Total Fiscal Year Expenditures		\$ 87,376,575
2.	Deduct the Following Expenditures Included in Above Totals		
	a. Expenditures from Gifts/Foundations	346,077	
	b. Expenditures from Federal Revenue	6,911,271	
	c. Revenue Transfers	213,735	
	d. Expenditures from Designated Reserves	1,803,423	
	e. Expenditures from Proceeds of Damage Awards	232,611	
	f. Expenditures from the Sale of School Property	451,293	
	g. Other Sources, Additions, and Debt Proceeds	<u>8,687,919</u>	
	Total Fiscal Year Deductions		<u>18,646,329</u>
3.	Total Spending Subject to TABOR for FYE 6-30-2017		<u>\$ 68,730,246</u>
4.	Total Spending Subject to TABOR for FYE 6-30-2016		\$ 66,484,848
5.	Percentage Change in Denver/Boulder CPI	1.176 %	
6.	Percentage Change in Student Enrollment	<u>0.689 %</u>	
7.	Total Percentage Change	<u>1.865 %</u>	
8.	Change in Permitted Spending Based on Percentage Changes		<u>1,239,809</u>
9.	Maximum Spending Subject to TABOR for FYE 6-30-2017		<u>\$ 67,724,657</u>
10.	FYE 6-30-2017 Spending Over (Under) Allowable Amount		<u>\$ 1,005,589</u>

Note - the School District passed a referendum regarding revenue and spending limitations on November 4, 1997.

The accompanying notes are an integral part of this schedule.

RECONCILIATION OF AUDITOR'S ELECTRONIC FINANCIAL DATA INTEGRITY
CHECK FIGURES TO GOVERNMENTAL FUND FINANCIAL STATEMENTS

PUEBLO COUNTY SCHOOL DISTRICT NO. 70

For the year ended June 30, 2017

	Balance Per <u>ADE</u>	Not Included- Swallows Charter Internal Service <u>Fund</u>	Shown in Different Category on <u>Fund Statement</u>	<u>Rounding</u>	Balance Per Governmental Fund Financial <u>Statements</u>
<u>Charter School / Component Unit</u>					
Beginning fund balance / Net position	\$ 2,108,792	\$ (12,438)	-	3	\$ 2,096,357
Revenues	6,037,337	(257,870)	267,077	-	6,046,544
Expenditures	5,590,803	(231,855)	267,077	3	5,626,028
Ending fund balance	2,555,326	(38,453)	-	-	2,516,873
The difference between the ADE reports and the governmental fund financial statements are due to the Swallows Charter Academy Internal Service Fund. The Internal Service Fund is not included in the fund statements.					
<u>General Fund</u>					
Revenues	66,330,349	-	-	1	66,330,350
Expenditures	65,116,119	-	-	1	65,116,120
<u>Pupil Activity Special Revenue Fund</u>					
Revenues	1,399,808	-	-	1	1,399,809
Expenditures	1,429,789	-	-	1	1,429,790
<u>Bond Redemption Fund</u>					
Revenues	8,718,809	-	-	1	8,718,810

The accompanying notes are an integral part of this schedule.

RECONCILIATION OF AUDITOR'S ELECTRONIC FINANCIAL DATA INTEGRITY
CHECK FIGURES TO GOVERNMENTAL FUND FINANCIAL STATEMENTS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	Balance Per <u>ADE</u>	Rounding	Combined Accounts on the Combining Sheet	Reserve Fund Balance on Combining Sheet	Capital Reserve Fund is Combined With the General Fund on the Balance Sheet	Categories Shown Separate on Combining Balance Sheet	Not included - Swallows Charter Internal Service Fund	Due To/From Netted When Combining General, Insurance and Preschool Funds	Balance per Governmental Fund Financial Statements
Bolded Balance Sheet Report									
General Fund/Preschool Fund									
Cash and investments	\$ 15,120,597	\$ -	\$ -	\$ -	\$ -	\$ (1,664)	\$ -	\$ -	\$ 15,118,933
Investments, at fair value	-	-	-	-	-	1,664	-	-	1,664
Taxes receivable	1,391,161	-	-	-	-	(572,729)	-	-	818,432
Cash with treasurer	-	-	-	-	-	322,729	-	-	322,729
Property tax receivable	-	-	-	-	-	250,000	-	-	250,000
Due from other funds	3,710,587	-	-	-	-	-	-	(2,984,062)	726,525
Grants accounts receivable	307,068	-	-	-	-	17,461	-	-	324,529
Other receivables	345,395	-	-	-	-	(17,461)	-	-	327,934
Total assets	20,916,468	(1)	-	-	-	-	-	(2,984,062)	17,932,405
Due to other funds	4,336,453	(1)	-	-	-	(1,352,390)	-	(2,984,062)	-
Due to component unit	-	-	-	-	-	1,352,390	-	-	1,352,390
Other payables	379,045	(1)	-	-	-	-	-	-	379,044
Accrued expenses & payroll deductions	6,510,290	(1)	-	-	-	-	-	-	6,510,289
Grants deferred revenue/earned revenue	658,979	-	-	-	-	(250,000)	-	-	408,979
Deferred Inflow of resources	-	-	-	-	-	250,000	-	-	250,000
Total liabilities and deferred inflow	11,884,765	(1)	-	-	-	-	-	(2,984,062)	8,900,702
Nonspendable	-	-	-	41,659	-	-	-	-	41,659
Restricted	1,982,800	-	-	21,595	-	-	-	-	2,004,395
Assigned	-	-	-	690,344	-	-	-	-	690,344
Unassigned	7,048,903	-	-	(753,598)	-	-	-	-	6,295,305
Total liabilities and fund balances	20,916,468	(1)	-	-	-	-	-	(2,984,062)	17,932,405
Debt Service Funds									
Cash and investments	12,412,390	1	-	-	-	(3,835,324)	-	-	8,577,067
Investments, at fair value	-	-	-	-	-	3,835,324	-	-	3,835,324
Taxes receivable	347,764	-	-	-	-	(171,544)	-	-	176,220
Cash with treasurer	-	-	-	-	-	51,544	-	-	51,544
Property tax receivable	-	-	-	-	-	120,000	-	-	120,000
Grants deferred revenue/earned revenue	120,000	-	-	-	-	(120,000)	-	-	-
Deferred Inflow of resources	-	-	-	-	-	120,000	-	-	120,000
Unassigned fund balance	12,640,155	-	-	(12,640,155)	-	-	-	-	-
Restricted fund balance	-	-	-	12,640,155	-	-	-	-	12,640,155
Capital Projects Fund									
Cash and investments	12,059	-	-	-	-	(12,059)	-	-	-
Investments, at fair value	-	-	-	-	-	12,059	-	-	12,059

The accompanying notes are an integral part of this schedule.

RECONCILIATION OF AUDITOR'S ELECTRONIC FINANCIAL DATA INTEGRITY
CHECK FIGURES TO GOVERNMENTAL FUND FINANCIAL STATEMENTS
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Balance</u> <u>Per</u> <u>ADE</u>	<u>Rounding</u>	<u>Combined</u> <u>Accounts</u> <u>on the</u> <u>Combining</u> <u>Balance</u> <u>Sheet</u>	<u>Reserve</u> <u>Fund</u> <u>Balance on</u> <u>Combining</u> <u>Balance</u> <u>Sheet</u>	<u>Capital Reserve</u> <u>Fund is Combined</u> <u>With the General</u> <u>Fund on the</u> <u>Balance</u> <u>Sheet</u>	<u>Categories</u> <u>Shown</u> <u>Separate on</u> <u>Combining</u> <u>Balance</u> <u>Sheet</u>	<u>Not included -</u> <u>Swallows</u> <u>Charter</u> <u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Due To/From</u> <u>Netted When</u> <u>Combining</u> <u>General, Insurance</u> <u>and Preschool</u> <u>Funds</u>	<u>Balance per</u> <u>Governmental</u> <u>Fund</u> <u>Financial</u> <u>Statements</u>
Bolded Balance Sheet Report									
Food Service/Special Revenue Funds									
Cash	\$ 1,093,021	\$ 1	\$ -	\$ -	\$ -	\$ (51,205)	\$ -	\$ -	\$ 1,041,817
Other investment accounts	-	-	-	-	-	51,205	-	-	51,205
Total assets	2,223,849	1	-	-	-	-	-	-	2,223,850
Other payables	66,727	1	-	-	-	-	-	-	66,728
Accrued expenses & payroll deductions	682,852	(1)	-	-	-	-	-	-	682,851
Non-spendable fund balance	-	-	-	67,489	-	-	-	-	67,489
Unassigned fund balance	1,105,526	1	-	(1,105,527)	-	-	-	-	-
Assigned fund balance	-	-	-	1,038,038	-	-	-	-	1,038,038
Total fund balance	1,191,926	1	-	-	-	-	-	-	1,191,927
Charter School / Component Unit									
Cash	1,750,410	(1)	-	-	-	20,233	(213,666)	-	1,556,976
Cash with fiscal agent	20,233	-	-	-	-	(20,233)	-	-	-
Interfund receivable	1,371,110	-	-	-	-	(18,720)	-	-	1,352,390
Due from other funds	-	-	-	-	-	3,739	-	-	3,739
Other receivables	8,348	-	-	-	-	1,500	-	-	9,848
Sites, machinery and equipment	3,397,283	-	-	-	-	-	(3,397,283)	-	-
Total assets	6,553,265	(1)	-	-	-	(13,482)	(3,610,949)	-	2,928,833
Interfund payables	42,140	-	-	-	-	(14,981)	(3,739)	-	23,420
Bonds payables	3,568,756	1	-	-	-	-	(3,568,757)	-	-
Accrued expenses & payroll deductions	320,281	(3)	-	-	-	1,500	-	-	321,778
Total Liabilities	3,997,938	-	-	-	-	(13,482)	(3,572,496)	-	411,960
Non-spendable fund balance	-	-	-	5,880	-	-	-	-	5,880
Unassigned fund balance	2,375,326	-	-	(2,336,873)	-	-	(38,453)	-	-
Assigned fund balance	-	-	-	2,330,993	-	-	-	-	2,330,993
Total fund balance	2,555,326	-	-	-	-	-	(38,453)	-	2,516,873

The accompanying notes are an integral part of this schedule.

**RECONCILIATION OF AUTOMATED DATA EXCHANGE (ADE)
ERROR REPORT TO THE DISTRICT GRANT RECEIPT FIGURES**
PUEBLO COUNTY SCHOOL DISTRICT NO. 70
For the year ended June 30, 2017

	<u>Balance Per CDE</u>	<u>Balance Per District</u>	<u>Variance</u>	<u>Explanation</u>
Warnings				
<u>CDE Audit Transportation Adjustment</u>	18,709.85	-	18,709.85	The adjustment was recognized in General Long-Term Debt on the Government Wide Statements net of the CDE Audit Equalization Adjustment
<u>CDE Audit Equalization Adjustment</u>	(60,671.27)	-	(60,671.27)	The adjustment was recognized in General Long-Term Debt on the Government Wide Statements net of the CDE Audit Transportation Adjustment
<u>Capital Construction Charter School</u> Grant Code: 3113 Receipts	230,399.75	216,395.14	14,004.61	Portion of funding that was allocated to Swallows Charter School
<u>Smart Start Breakfast</u> Grant Code: 3164 Receipts	15,153.30	18,835.80	(3,682.50)	Receivable at 6/30/16 \$3,843.60 less June 2016 claim \$161.10
<u>School Lunch Protection Program</u> Grant Code: 3169 Receipts	15,911.60	19,858.00	(3,946.40)	Receivable at 6/30/2016 \$4,109.60 less June 2016 claim \$163.20
<u>Migrant Education Grant</u> Grant Code: 4011 Receipts	603,468.00	536,288.00	67,180.00	Portion of the Receivable at 6/30/2017
<u>IDEA: Part B: Special Education</u> Grant Code: 4027 Receipts	1,591,281.00	1,473,755.00	117,526.00	Portion of the Receivable at 6/30/2017
<u>Special Education Pre School Grant</u> Grant Code: 4173 Receipts	18,095.00	16,657.00	1,438.00	Portion of the Receivable at 6/30/2017
<u>School Breakfast Program</u> Grant Code 4553 Receipts	588,248.75	724,793.91	(136,545.16)	Receivable at 6/30/2016 \$142,667.02 less June 2016 claim \$6,121.86
<u>School Lunch Program</u> Grant Code 4555 Receipts	1,304,809.69	1,590,698.09	(285,888.40)	Receivable at 6/30/2016 \$296,566.07 less June 2016 claim \$10,677.67

The accompanying notes are an integral part of this schedule.