



Annual Financial Report

For the year ending June 30, 2018



EL PASO COUNTY SCHOOL DISTRICT 3
1820 Main Street
Colorado Springs, CO 80911

ANNUAL FINANCIAL REPORT
For the fiscal year ended June 30, 2018

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Prepared By:

BUSINESS AND FINANCE OFFICE

Terry Kimber
Chief Financial Officer

Angela Skalla
District Accountant

Rachel Morse
Staff Accountant

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Terry Kimber, Chief Financial Officer

1820 Main Street, Colorado Springs, CO 80911 Phone (719) 391-3026 Fax (719) 391-3037

November 1, 2018

To the members of the Board of Education, the Superintendent and Citizens of Widefield School District 3:

State law requires that school districts publish, within six months after the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. State law also requires that this report must be submitted to the Board of Education within five months after the close of the fiscal year. Pursuant to that requirement, we hereby issue the annual financial report of El Paso County School District 3 for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the district. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, district management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the district's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the district's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

El Paso County School District 3's financial statements have been audited by *Hoelting & Company, Inc.*, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the district for the fiscal year ended June 30, 2018 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the district's financial statements for the fiscal year ended June 30, 2018 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Mr. Scott Campbell, Superintendent

The independent audit of the district's financial statements was part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the district's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the Single Audit section of this report.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The district's MD&A can be found immediately following the report of the independent auditors.

The district's annual financial report incorporates the reporting model prescribed by the Governmental Accounting Standards Board (GASB) Statement 34. This approach emphasizes the use of government-wide financial statements, in addition to fund financial statements, enabling the reader to obtain an overview of the district's financial position and results of operations.

Profile of the District

El Paso County School District 3, an independent school district, provides a full range of school programs and services authorized by Colorado state statute. This includes pre-kindergarten through 12th grade education in elementary, junior and senior high schools; special education for disabled students; gifted and talented programs; vocational and adult education; preschool; and other educational programs.

The Board of Education has significant control over one legally separate entity. James Madison Charter Academy charter school is deemed to be a component unit of the district and its financial data has been included in the government-wide financial statements. James Madison Charter Academy receives a proportionate share of state equalization revenue, mill levy override revenue and impact aid revenue based on the number of students enrolled at the charter school.

This report includes all funds, organizations and activities with which the Board of Education has significant relationships as further described in Note 1 of the notes to the basic financial statements.

The annual budget serves as the foundation for the district's financial planning and control. An adopted budget is developed based on budget requests of individual departments of the district. The business and finance office presents the adopted budget to the Board of Education for review. Public hearings are held on the adopted budget, and a final budget is approved no later than June 30, the close of the district's fiscal year.

The appropriated budget is prepared by fund, function and department. Budget-to-actual comparisons are provided in other supplementary information for each non-major governmental fund for which an appropriated annual budget has been adopted.

The district maintains 15 school buildings. The oldest buildings are North Preschool and Widefield Elementary, both constructed in 1956. The newest school building is Mesa Ridge High School, constructed in 1997. Martin Luther King elementary was completely remodeled in 2014.

Local Economy

While Widefield School District 3 enjoys a strong and trusting partnership with its community, there is very little industry and therefore the district has a low tax base and assessed value. However, the district benefits from its proximity to Fort Carson, a large U.S. Army base contiguous to the school district to the west and south. There are approximately 26,000 active-duty military personnel assigned to Fort Carson. Those soldiers bring with them 42,000 family members; Widefield provides education for about 2,005 children of active-duty soldiers.

Student Enrollment Trends

Widefield School District 3 has experienced steady trends in its student full-time equivalency (FTE) enrollment. The enrollment was 9,728 for the 2017-2018 school year. In October 2018, the enrollment is estimated to drop slightly too approximately 9,608 students. The district is still anticipating steady long-term growth. The areas to the south and east of the district are in the process of rapid growth. These areas include Lorson Ranch and The Glen subdivisions. New areas are being prepared in the eastern part of the district for new housing developments as well. Due to this growth on the eastern edge of the District, voters approved a \$49.5 million bond issue to build a new K-8 school.

School Finance and Legislative Activity

Colorado school finance formulas consist of three main components: the legislatively controlled funding amount per pupil, the number of pupils in the district, and the number of students eligible for free lunch. When Amendment 23 was passed by Colorado voters in November 2000, school districts were promised an inflationary increase of per pupil base funding plus 1% for 10 years. The additional 1% ended in fiscal year 2011. The inflationary increase is based on the Denver-Boulder consumer price index (CPI) of the prior calendar year. The CPI increase for 2018 was 3.40%.

For the fiscal year 2017-2018, the State General Assembly enacted a \$240 million increase to K-12 school funding. The negative factor declined slightly from \$824 million to \$822 million however, TABOR caps are getting very close to being reached creating an uncertain future for school finance. The State is projecting a significant increase to revenues over the next two years due to the growing economy and the effects of Federal tax law changes. For 2018-2019 the negative factor declined to \$667 million.

The PPR Funding for the 2017-2018 fiscal year increased to \$7,278 from the 2016-2017 PPR amount of \$7,045 per FTE. Funding for 2018-2019 is anticipated to increase approximately \$452 per student.

TABOR – Article X, Section 20 of the state constitution creates limitations on general operating property tax revenue increases from one year to the next. Restrictions also apply to certain spending levels and revenue levels from one year to the next. Both limitations are determined by the sum of the increases or decreases in the Denver-Boulder CPI and the actual growth rate (change in the number of students). A declining enrollment actually lowers the maximum level by which revenue and spending may increase.

Local voters within each Colorado school district may, through a majority vote, temporarily or permanently override either or both negative impacts created by the school finance act and TABOR. The voters in District 3 passed an amendment in November 1999 allowing the district to retain excess revenues in that and all future years. In November 2002 the voters approved a permanent mill levy override. A second mill levy override and a bond issue were approved in November 2017.

Total revenue for the General Fund is projected at approximately \$80.6 million for fiscal year 2018-2019, which is about \$900 thousand more than actual revenues for fiscal year 2017-2018. Total fund balance is increasing by approximately \$3.97 million for 2017-2018. This is mainly the result of the passage of the mill levy override in November 2017.

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 redirect resources to schools. The following priorities for the 2018-2019 fiscal year are consistent with this philosophy:

- Teacher staffing in support of excellence and enrollment growth is expected to increase due to enrollment and specific school needs for 2018-2019.
- In the fall of 2002, the district passed a mill levy override of \$3.95 million. The additional dollars were needed to take care of four initiatives: increased student achievement; reduce and/or maintain class size; improve reading, writing and math resources (instructional coaches); and attract and retain top-quality professionals.
- In November of 2017, the district passed a second mill levy override of \$3.5 million. The additional resources will be use as previously mentioned.
- Salary adjustments for the staff are the result of salary and compensation policy discussions. There was an increase for the 2018-2019 year to employees' base salary by an average of 8% for all staff.

Cash management policies and practices

The district maintains its surplus cash in various investment vehicles with varying annual rates of return.

Since 2003, the district has followed an active investment approach with the portfolio managed by the district's business services office assisted by an external investment advisor. The Board of

Education has implemented its investment policy including significant investment procedures to assist with the prudent management of the portfolio.

The district's principal investment objectives include preservation of capital and protection of investment principal; maintenance of sufficient liquidity to meet anticipated cash flows; diversification to avoid incurring unreasonable market risks; attainment of a market value rate of return; and conformance with all applicable district policies and state and federal regulations. These objectives ensure that the district's funds are invested in authorized securities and diversified as to not incur unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The district maintains its investments in various securities in order to not exceed stated guidelines concerning the authorized limit on investments of one type of security.

For fiscal year 2017-2018, cash was invested primarily in U.S. government treasuries and agencies, and the Colorado Local Government Liquid Asset Trust (COLOTRUST).

Mill Levy overrides

A mill levy override was approved by voters in November 2002. The following four initiatives were included:

- Increased student achievement
- Reduce and/or maintain class size
- Improve reading, writing and math resources (instructional coaches)
- Attract and retain top-quality professionals

In November 2017, the voters overwhelmingly passed a second mill levy override to local property tax funding. When combined with the 2002 override the two equal 10% of the School Finance Act total program. For 2018, the amount was an additional \$3.5 million. The total mill levy override funding collected for 2017-2018 was \$7,404,678. These additional Funds were used to support the following initiatives:

- Staff salary increases
- Minimum wage salary increase
- District support for employee health insurance
- Technology
- Curriculum resources
- Elementary support staff
- School building budgets
- PLTW pathway teachers
- Robotics program
- Support for staffing Grand Mountain School for 2019-2020

Acknowledgements

We express gratitude to those who assisted in the preparation of this report, which would not have been possible without the dedicated efforts of the business services staff. We commend Superintendent Scott Campbell and the Board of Education for their interest and support in planning and conducting the financial operations of the district in a responsible and progressive manner.

We also thank the independent auditors from the certified public accounting firm of *Hoelting & Company, Inc.* for their careful review of this document. Their assistance was invaluable in finalizing the report.

We offer special thanks to the following district employees, whose efforts and contributions made the preparation of the fiscal year 2017-2018 Annual Financial Report a success:

Office of Business Services

Carrie Payne, Payroll
Donna Walsh, Accounts Payable
Liza Vondriska, Accounts Payable
Rene Swindale, Bookkeeper
Vickie Latrell, Payroll

Respectfully submitted,



Terry Kimber
Chief Financial Officer



Angela R. Skalla
District Accountant



Rachel A. Morse
Staff Accountant

**SUPERINTENDENT’S CABINET
2017-2018**

Scott Campbell..... Superintendent

Connie Florell.....Assistant Superintendent

Dennis Neal.....Chief Operations Officer

Joe Garrett.....Assistant Superintendent

Kevin Duren.....Executive Director of Secondary Student Learning and Math Achievement

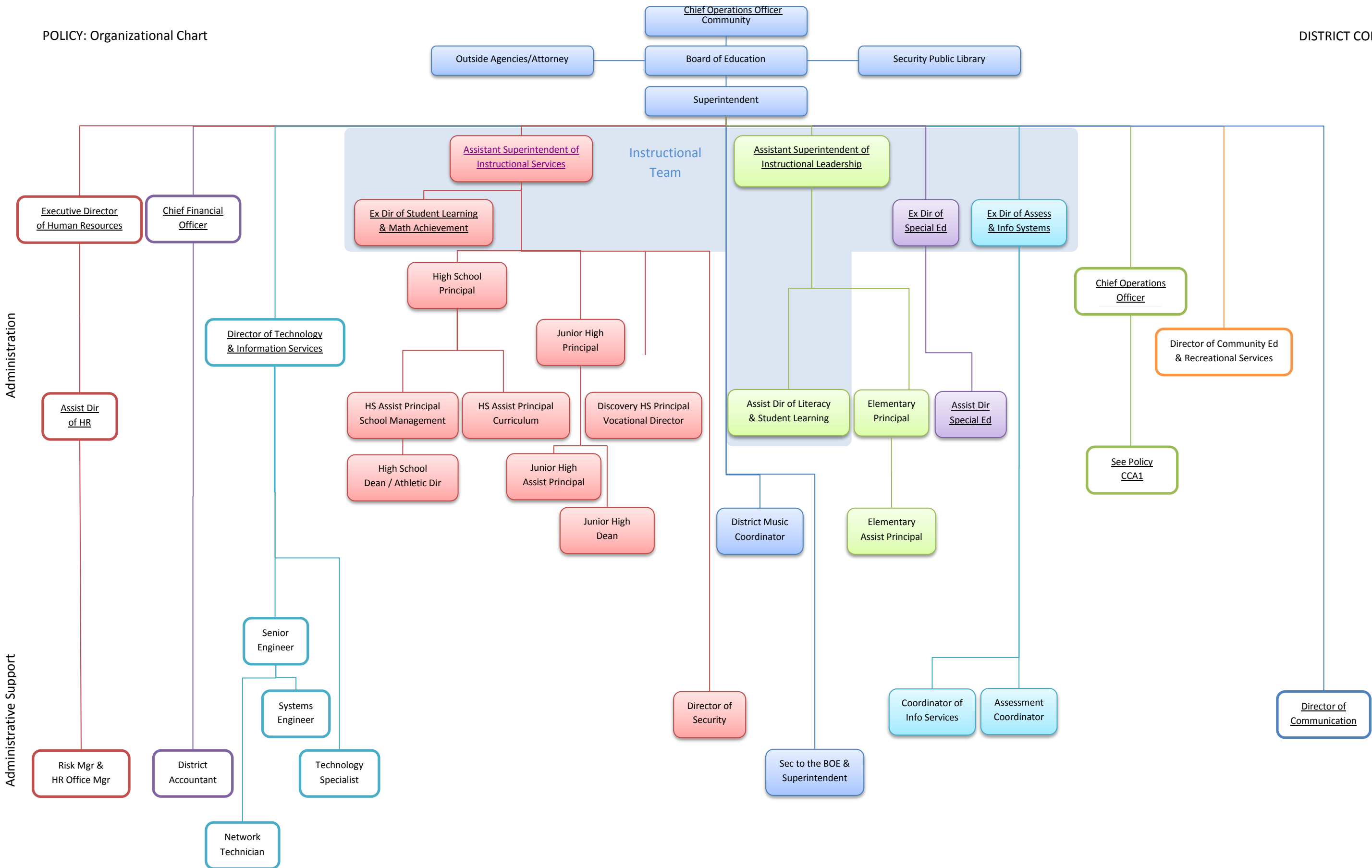
Kirk VseteckaExecutive Director of Human Resources

Kirsten Toy.....Executive Director of Student Achievement

Lisa HumberdExecutive Director of Special Education

Sam Briggs.....Director of Communication

Terry Kimber.....Chief Financial Officer





INDEPENDENT AUDITORS' REPORT

To the Board of Education
El Paso County School District No. 3

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of El Paso County School District No. 3, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of El Paso County School District No. 3, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, effective July 1, 2017, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary 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 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 El Paso County School District No. 3's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required 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 fund statements and schedules 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. In our opinion, the combining and individual fund statements and schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the El Paso County School District No. 3'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 El Paso County School District No. 3's internal control over financial reporting and compliance.

Hoelting & Company, Inc.

Colorado Springs, Colorado
November 1, 2018

Management's Discussion and Analysis

As management of El Paso (Widefield) School District 3, we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

Financial Highlights

- The District's total net position decreased \$48,256,849 during fiscal year 2017-2018. This is due to the continued implementation of GASB Statement No. 68. (PERA Reporting) See note eleven, to the financial statements for additional information. PERA changed a main variable in the calculations of unfunded liabilities and this decrease in Widefield School District 3's portion of that change.
- At the close of the current fiscal year, the District's *governmental funds* reported combined ending fund balances of \$87,237,193 compared to \$30,700,090 at the close of the prior fiscal year.
- At June 30, 2018, the General Fund reported non-spendable fund balance of \$269,615. The total restricted fund balances for all *governmental funds* were \$9,937,003, including \$2,928,586 in the General Fund and \$7,008,417 in the Bond Redemption Fund. Committed fund balance was added in the General Fund of \$860,000 for the opening of the new Grand Mountain K-8 School in August of 2019. The total General Fund unassigned fund balance increased by \$4,259,706 to \$16,338,925 at June 30, 2018.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to El Paso County School District 3's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position of the District. Current and previous year information is presented for comparison.

The *statement of activities* presents information reporting how the District's net position changed during fiscal year 2017-2018. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods. Earned but unused vacation leave and uncollected taxes are examples of these types of items.

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

and school administration, business and central services, and transportation. Production printing activities, reported in the Internal Service Fund, are considered governmental activities. Currently, the District has no business-type activities.

Fund Financial Statements

A *fund* is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All District funds can be divided into two categories: governmental funds and fiduciary funds.

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

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

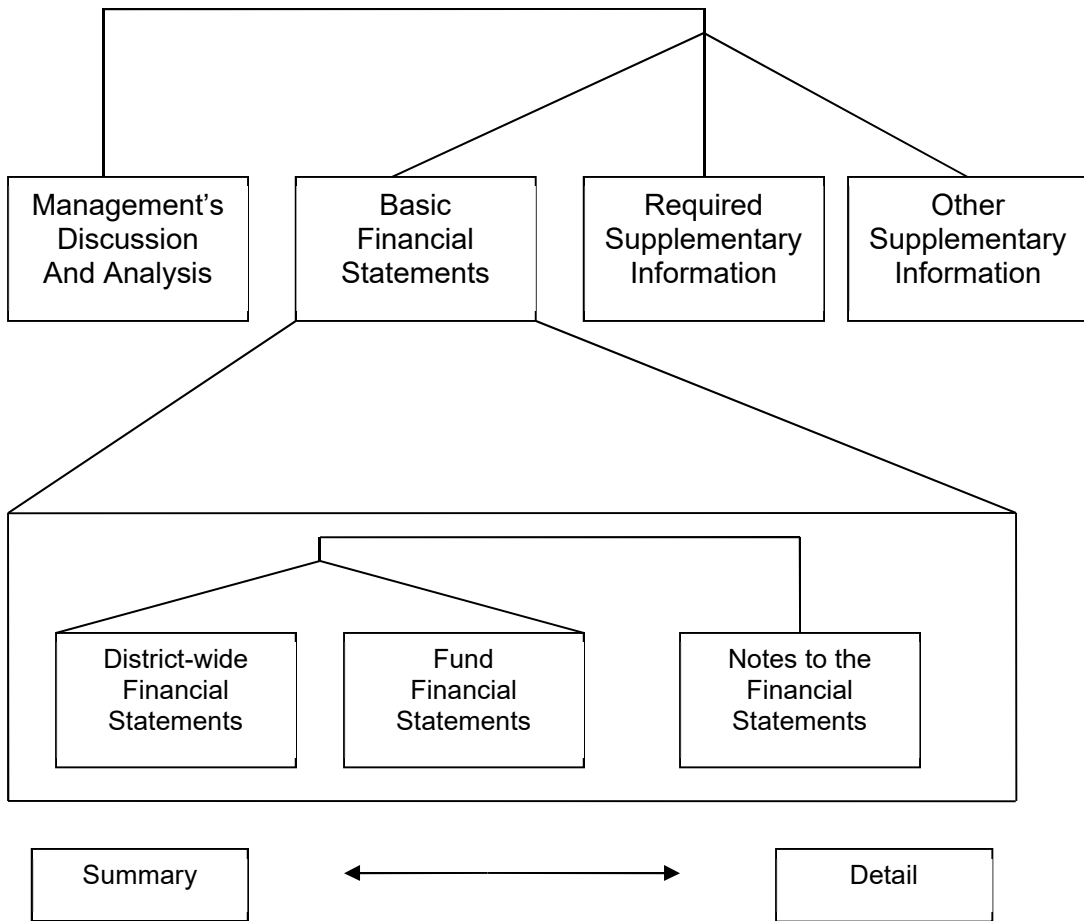
The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund, Widefield Parks and Recreation, Building Fund, and Bond Redemption, which are treated as *major funds*. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* as other supplementary information in the report.

Fiduciary Funds

Fiduciary funds are not reported in the government-wide financial statements. The Non-Pupil Activity Agency Fund was created to act as a custodian for funds held for the benefits of private individuals and organizations. At June 30, 2018, the Non-Pupil Activity Agency Trust Fund has total assets of \$92,457 compared to \$87,522 at June 30, 2017.

The Pupil Activity Agency fund was created to account for pupil activity funds including proceeds from vending machine sales and student fundraising activities. At June 30, 2018 the Pupil Activity Agency Fund had total assets of \$1,320,548 and total liabilities of the same amount resulting in a fund balance of zero. At June 30, 2017 the fund had total assets of \$1,226,361 and total liabilities of the same amount resulting in a fund balance of zero.

Organization of El Paso County School District No. 3 Annual Financial Report



This figure shows how the various parts of this annual report are arranged and related to one another.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* (RSI) concerning the District. The District adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided for the General fund to demonstrate compliance with this budget.

Other Supplementary Information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Financial Analysis of the District as a Whole

- As noted earlier, net position over time may serve as a useful indicator of the District's financial position. For the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$187,100,562 at June 30, 2018.
- By far, the largest portion of the District's net position reflects its \$327,442,070 in pension liability reported per GASB Statement No. 68 and the new GASB Statement No. 75 (Accounting for Post-Employment Benefits or OPEB) of \$7,447,191 that went into effect this fiscal year. This is a combined increase of \$28,323,246 in fiscal year 2018.
- For the fiscal year 2017-2018, the District's net position decreased \$48,256,849 as a result of increases in the General Fund's fund balance netted against the increased GASB Statement No. 68 pension liability increase and the aforementioned implantation of GASB Statement No. 75.

Governmental Activities. Governmental activities decreased the District's net position by \$48,256,849 compared to a decrease of \$45,304,877 for the previous fiscal year due to GASB 68 and GASB 75 (PERA Liabilities). Key elements of this increase follow:

- The cost of all governmental activities for fiscal year 2017-2018 was \$143,196,561 compared to \$129,391,735 for the previous fiscal year.
- For fiscal year 2017-2018, governmental activities were financed with \$21,548,899 in property taxes, and \$2,353,681 in specific ownership taxes, and \$56,099,745 of unrestricted state equalization based on the statewide education aid formula. For comparison, in fiscal year 2016-2017, this portion of governmental activities were financed with \$16,856,657 in property taxes and specific ownership taxes, and \$53,924,459 of unrestricted state equalization.
- Users of some of the District's governmental programs financed \$1,479,971 for fiscal year 2017-2018 compared to \$1,485,852 for the previous fiscal year.
- The federal and state governments subsidized certain programs with operating grants and contributions totaling \$11,054,105 for fiscal year 2017-2018 compared to \$10,920,896 for fiscal year 2016-2017.
- District and state taxpayers financed most District governmental activities.

Economic Factors and next year's budget

Colorado's economy continues to improve, competing mandates from constitutional amendments (Gallagher, Amendment 23, TABOR) and Medicaid expansion have affected the State's ability to fund education at the constitutionally required levels. Widefield School District 3 has a "negative factor" now called the "budget stabilization factor" which is a reduction of the guarantees from Amendment 23 of over \$8 million annually. (\$8.2 million in 2017-2018) State funding for 2018-2019 was significantly improved when the legislature used additional tax revenue receipts to "buy down" the Negative Factor reducing the District's amount to \$6.67 million for the 2018-2019 school year.

Through these difficult financial times, Widefield School District 3 has made difficult budget decisions but has remained in a strong financial position. The state economic forecasts show additional funds coming into the state but how much finds its way into the School Finance Act is uncertain. With 70.36% of the district's funding coming from State Equalization funding, it will be important for the state's legislatures to come together to reduce the impact of the factors mentioned above on school funding. Widefield School District 3 is committed to our students first and our priority will continue to be the high level education of our students.

In November 2017, the voters of Widefield approved a Mill Levy Override (MLO) to add \$3.5 million in funding. They also approved a bond issue of \$49.5 million to build a new K-8 school in the eastern part of the district and to do much needed facility repairs and upgrades throughout the District. The MLO as approved was to provide the funds to provide:

- Staff salary increases
- Minimum wage salary increase
- District support for employee health insurance
- Technology
- Curriculum resources
- Elementary support staff
- School building budgets
- PLTW pathway teachers
- Robotics program
- Support for staffing Grand Mountain School for 2019-2020

The state passed legislation for the 2018-2019 fiscal year to reduce the negative factor, which resulted in District 3 receiving an additional \$452 per student or approximately \$4 million.

Other future economic factors will be in play for 2018-2019 and beyond. Federal changes to the tax laws and the continued economic growth of Colorado will provide additional funds to the State coffers. It will be up to the legislators to distribute these funds. TABOR refunds will become the norm starting in 19-20 and beyond as long as the economy continues to grow. With inflation continuing over 3%, base increases to school funding will grow but how much of an effort to relive the effects of the negative factor remain to be seen.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
CONDENSED STATEMENT OF NET POSITION
For June 30, 2018 and 2017

	Governmental Activities	
	2018	2017
Current & other assets	\$ 99,266,244	\$ 40,408,316
Capital assets	49,107,442	44,085,815
Total assets	148,373,686	84,494,131
Deferred outflows of resources	95,437,934	119,601,048
Other liabilities	11,918,411	9,462,995
Long-term liabilities outstanding	400,947,907	320,489,263
Total liabilities	412,866,318	329,952,258
Deferred inflows of resources	18,045,864	5,633,252
Net position		
Net investment in capital assets	(13,400,529)	32,115,042
Restricted	9,937,003	8,032,448
Unrestricted	(183,637,036)	(171,637,821)
Total net position	\$ (187,100,562)	\$ (131,490,331)

Condensed Statement of Changes in Net Position
For June 30, 2018 and 2017

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Charges for services	\$ 1,479,971	\$ 1,485,852
Operating grants & contributions	11,054,105	10,920,896
General revenues		
Property and specific ownership taxes	23,902,580	16,856,657
State equalization	56,099,745	53,924,459
Other	2,403,311	898,994
Total revenues	94,939,712	84,086,858
Expenses		
Instruction	78,194,571	70,849,064
Pupil & instructional services	17,927,474	16,703,944
Administration & business	14,522,973	13,417,219
Maintenance & operations	13,699,565	12,488,654
Transportation	6,170,893	5,179,542
Central services	5,187,534	4,725,151
Community services & miscellaneous	1,678,482	1,868,808
Food Services	2,686,195	2,627,296
Facilities acquisition & construction	959,595	634,033
Interest and fiscal charges	2,169,279	898,024
Total expenses	143,196,561	129,391,735
Change in net position	(48,256,849)	(45,304,877)
Beginning net position as restated	(138,843,713)	(86,185,454)
Ending net position	\$ (187,100,562)	\$ (131,490,331)

Financial Analysis of the District's Funds

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

General Fund

The General Fund is the major operating fund of the District, providing the majority of the resources for the educational and support programs. Revenues for the General Fund totaled \$79,735,778 in fiscal year 2017-2018 compared to \$72,243,390 in fiscal year 2016-2017, an increase of 10.37%. The following table reflects the amount of revenue from various sources. The majority of increase was due to an increase in Per Pupil Revenue from the School Finance Act, enrollment increases and the passage of the MLO in 2017-2018.

Revenues	FY 2017-2018	FY 2016-2017	Amount of Change	Percentage of Change
Property taxes	\$ 15,337,997	\$ 11,431,502	\$ 3,906,495	34.17 %
Specific ownership taxes	1,737,528	1,445,083	292,445	20.24
State of Colorado				
Equalization	56,099,745	53,924,459	2,175,286	4.03
Other state sources	3,377,101	3,077,563	299,538	9.73
Federal	1,204,423	1,169,606	34,817	2.98
Other sources				
Investment income	231,090	155,663	75,427	48.46
Tuition	60,462	64,974	(4,512)	(6.94)
Miscellaneous	1,687,432	974,540	712,892	73.15
Totals	<u>\$ 79,735,778</u>	<u>\$ 72,243,390</u>	<u>\$ 7,492,388</u>	<u>10.37 %</u>

Property Taxes. The 2018 General Fund property tax revenues were based upon a levy of 42.440 mills applied against an assessed valuation of \$364,674,720, while 2017 General Fund property tax revenues were based upon a levy of 33.438 mills applied against an assessed valuation of \$344,633,560.

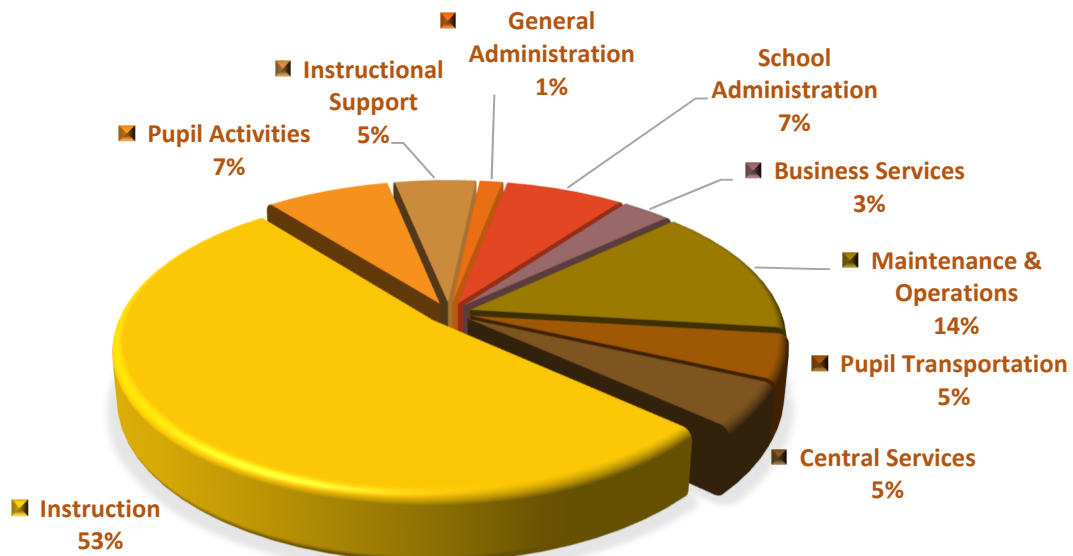
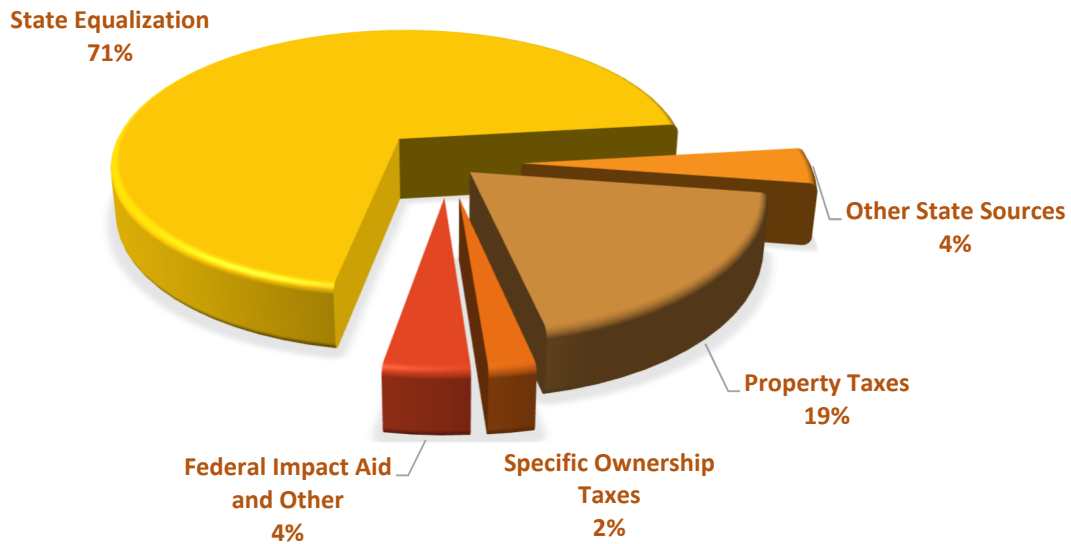
Specific Ownership Taxes. Specific ownership tax is applied to the fair value of vehicles registered in Colorado. The tax is collected when vehicle owners renew their vehicle registrations each year. The increase in specific ownership tax collections was approximately 20.24% percent for fiscal year 2017-2018.

State Equalization. State equalization revenue increased by 4.03% in fiscal year 2017-2018. State equalization revenue is the primary source of revenue for the General Fund, and it provided over 70.36% of total General Fund revenue. Payments are received monthly at generally 1/12th of the annual state estimated revenue. In comparison, local property taxpayers provided approximately 19.24% toward funding public education in the District based on the regular mill levy.

Other State Sources. Other state sources consist of state vocational revenue, state special education revenue, and other miscellaneous state revenues received. These revenues increased by \$299,538 mainly due to increased state funding for vocational education, special education and READ Act Grant funding.

Federal Sources. Federal sources of revenue consist of grant funds received from Federal Impact Aid, in lieu of property tax revenues. The Federal Impact Aid revenues fluctuate from year to year based on the number of District students whose parents are associated by residence or employment to federally owned land.

EL PASO COUNTY SCHOOL DISTRICT 3 GENERAL FUND REVENUES FY 17/18



EL PASO COUNTY SCHOOL DISTRICT 3 GENERAL FUND EXPENDITURES FY 17/18

Other Sources. Other sources of revenues consist of investment income, tuition and miscellaneous revenue sources. These amounts vary from year to year based on investment returns, number of students enrolled in tuition paying programs, and receipt of miscellaneous revenue.

Expenditures

Fiscal year 2017-2018 expenditures in the General Fund, including the accrual for teacher salaries and benefits, totaled \$73,665,232 compared to \$70,113,515 in fiscal year 2016-2017. This represents an increase of 5.07% from fiscal year 2016-2017. The following table compares expenditures for fiscal years 2017-2018 and 2016-2017 using the GAAP basis of accounting.

<u>Expenditures</u>	<u>FY 2017-2018</u>	<u>FY 2016-2017</u>	<u>Amount of Change</u>	<u>Percentage of Change</u>
Instruction	\$ 38,659,054	\$ 37,287,694	\$ 1,371,360	3.68 %
Supporting services				
Student activities	5,448,191	5,347,081	101,110	1.89
Instructional support	3,572,465	3,837,862	(265,397)	(6.92)
General administration	1,004,782	1,044,536	(39,754)	(3.81)
School administration	5,214,500	5,272,369	(57,869)	(1.10)
Business services	2,161,061	1,335,735	825,326	61.79
Maintenance & operations	10,162,758	7,851,446	2,311,312	29.44
Pupil transportation	3,553,394	3,176,553	376,841	11.86
Central services	3,591,644	3,473,797	117,847	3.39
Other support services	161,768	232,482	(70,714)	(30.42)
Facilities acquisition and Const.	0	1,100,000	(1,100,000)	N/A
Debt Service	135,615	153,960	(18,345)	N/A
Totals	<u>\$ 73,665,232</u>	<u>\$ 70,113,515</u>	<u>\$ 3,551,717</u>	<u>5.07 %</u>

Instruction. Instruction expenditures for fiscal year 2017-2018 were \$38,659,054, 3.68% higher than fiscal year 2016-2017.

Supporting Services. Combined supporting services expenditures for fiscal year 2017-2018 increased slightly from \$31,571,861 to \$34,870,563 resulting in a 10.45% increase from fiscal year 2016-2017.

Bond Redemption Fund

The Debt Service Fund is used to account for the requirements of the District's general obligation bonds, and is also a major fund for fiscal year 2017-2018. The primary revenue source for the Bond Redemption Fund is a voter approved floating mill levy (11.972 mills for fiscal year 2017-2018, which generated \$4.7 million for fiscal year 2017-2018 to satisfy principal and interest requirements on the District's general obligation debt. The increase of \$2,159,556 in fund balance for the current fiscal year is the result of the accumulations of funds to pay principal and interest payments in future years. The District's bonded debt limit is set by Colorado statute at 20% of assessed property valuation. The District's total bonded debt at June 30, 2018 is \$54,865,000 compared to \$6,900,000 at June 30, 2017. In January 2018, the district issued \$49.5 Million in new bonds sold at a premium of \$7.39 million. The bonds will be used to build Grand Mountain K-8 School in the eastern part of the District and provide for repairs and improvements at other District Schools.

Other Governmental Funds

Summary information for other governmental funds of Widefield School District 3 are listed below for fiscal year 2017-2018.

Other Funds			
<u>Governmental Funds</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Net Change in Fund Balances</u>
Designated-Purpose Grants	\$ 4,034,566	\$ 4,034,566	\$ -
Pupil Activity	79,722	89,885	(10,163)
Food Service	2,823,517	2,646,126	177,391
Conservation Trust	261,400	323,903	(62,503)
Capital Projects	93,755	491,363	(397,608)
Totals	<u>\$ 7,292,960</u>	<u>\$ 7,585,843</u>	<u>\$ (292,883)</u>

The Designated-Purpose Grants Fund is used for grants awarded to the District for a specific purpose. The 2017-2018 revenues of \$4,034,566 match expenditures for the year, compared to \$4,117,488 for fiscal year 2016-2017.

The Pupil Activity Fund accounts for school sponsored pupil intra-scholastic and inter-scholastic athletic and related events. Revenues from pupil and other fund-raising activities fund the annual Pupil Activity Fund expenditures.

The Food Service Fund is used to account for all financial activities associated with the District meal programs. Food Service Fund revenues come primarily from charges to users throughout the District and reimbursement for meal expenses under the Federal Child Nutrition Act. Fiscal year 2017-2018 revenues totaled \$2,823,517 (\$2,720,335 for the previous fiscal year) with federal government lunch reimbursements totaling \$2,047,463 (\$2,015,455 for fiscal year 2016-2017).

The Conservation Trust Fund is used for improving the Widefield Parks and Recreation's parks and recreation areas. Revenue is received from the state lottery.

The Capital Projects Fund is used for various District remodels and construction projects. Total revenues for the Capital Projects Fund amounted to approximately \$2.194 million for 2017-2018 compared to \$2.814 million in 2016-2017.

Fiduciary Funds

Fiduciary funds are not reported in the government-wide financial statements. The Non-Pupil Activity Agency Fund was created to act as a custodian for funds held for the benefits of private individuals and organizations. At June 30, 2018 the Non-Pupil Activity Agency Trust Fund has total assets of \$92,457 compared to \$87,522 at June 30, 2017. How the District accounts for these funds will change in 2018-2019 due to GASB 84.

The Pupil Activity Agency fund was created to account for pupil activity funds including proceeds from vending machine sales and student fundraising activities. At June 30, 2018 the Pupil Activity Agency Fund had total assets of \$1,320,548 and total liabilities of the same amount resulting in a fund balance of zero. At June 30, 2017 the fund had total assets of \$1,226,361 and total liabilities of the same amount resulting in a fund balance of zero. How the District accounts for these funds will change in 2018-2019 due to GASB 84.

General Fund Budgetary Highlights

The original fiscal year 2017-2018 budget adopted by the Board of Education for the District as a whole totaled \$112.2 million, including General Fund appropriations of \$86.4 million.

The original fiscal year 2017-2018 adopted budget was modified to reflect changes in funding for a final district-wide budget of \$177.9 million. The General Fund budget increased to \$93.0 million in appropriations. Fiscal year 2017-2018 budgeted state equalization revenues for the General Fund totaled \$57.3 million, while actual state equalization revenues totaled \$57.0 million. The General Fund received all state equalization revenues and transferred approximately \$3.95 million to other funds, including the charter school.

The General Fund's increase in fund balance for 2017-2018 was due mainly from the November election approving the new Mill Levy Override of \$3.5 million.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for the primary government, as of June 30, 2018 totaled \$49,107,442 (net of accumulated depreciation of \$33,286,236) compared to \$44,085,815 for fiscal year 2016-2017. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress.

Government-Wide Capital Assets	2017-2018	2016-2017
Land & improvements	\$ 1,381,733	\$ 1,381,733
Buildings & improvements	63,954,304	61,234,734
Equipment	13,108,328	12,085,002
Construction in progress	3,949,313	264,203
Less accumulated depreciation	<u>(33,286,236)</u>	<u>(30,879,857)</u>
Total	<u>\$ 49,107,442</u>	<u>\$ 44,085,815</u>

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$66,028,646 including \$2,680,108 due within the next twelve months.

For comparison, at the end of the previous fiscal year, the District had total long-term debt outstanding of \$13,893,248 including \$2,238,699 due within the next twelve months.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Business and Finance
Widefield School District 3
1820 Main Street
Colorado Springs, CO 80911

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements include the Government-wide Financial Statements and the Fund Financial Statements.

Government-wide Financial Statements

The Government-wide Financial Statements provide a financial overview of the District's operations as a whole rather than for individual funds. The financial statements present the net position at the end of the report date and the results of operations and changes in net position for the year then ended. All District resources, both capital and financial, current and long-term are reported in the Government-wide Financial Statements.

Fund Financial Statements

The Fund Financial Statements provide a more detailed report of major funds of the District with emphasis on control of resources, short-term measurement of revenues and expenditures, and assessment of compliance with finance-related laws, rules, and regulations. Fund Financial Statements are presented for:

Governmental Funds

Fiduciary Funds

Component Units

The District has one charter school operating as a separate legal entity and presented as a discrete component unit in the Basic Financial Statements. The charter entity is James Madison Charter Academy.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 82,802,115	\$ 24,859
Investments	7,156,068	-
Restricted cash and cash equivalents	6,729,486	249,149
Property tax receivable	836,513	-
Receivable from agency fund	10,044	(2,116)
Receivable from primary government	-	120,718
Other receivables	1,357,625	-
Inventories and prepaid expenses	364,393	-
Other assets	10,000	-
Capital assets not being depreciated	5,331,046	-
Capital assets, net of depreciation	43,776,396	1,119,764
Total assets	148,373,686	1,512,374
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refunding	785,779	-
Deferred pension outflows	94,375,383	1,258,889
Deferred OPEB outflows	276,772	3,461
Total deferred outflows of resources	95,437,934	1,262,350
LIABILITIES		
Accounts payable and other current liabilities	4,000,739	9,962
Accrued salaries	7,508,498	17,670
Accrued interest	216,720	21,500
Payable to charter school	120,718	-
Unearned revenues	71,736	-
Long-term liabilities:		
Due within one year	2,680,108	40,000
Due in more than one year	63,348,538	1,654,663
Net pension liability	327,442,070	4,160,901
Net OPEB liability	7,477,191	95,017
Total liabilities	412,866,318	5,999,713
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	17,810,846	207,447
Deferred OPEB inflows	235,018	2,320
Total deferred inflows of resources	18,045,864	209,767
NET POSITION		
Net investment in capital assets	(13,400,529)	(574,899)
Restricted for:		
TABOR	2,470,000	34,300
Debt service	7,008,417	227,649
Other purposes	458,586	-
Unrestricted	(183,637,036)	(3,121,806)
Total net position	\$ (187,100,562)	\$ (3,434,756)

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

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Component Unit</u>
Primary government						
Governmental activities						
Instruction	\$ 78,194,571	\$ 255,016	\$ 7,993,360	\$ -	\$ (69,946,195)	\$ -
Support services- students	10,642,513	-	-	-	(10,642,513)	-
Support services- instructional	7,284,961	-	-	-	(7,284,961)	-
General administration	1,746,900	-	-	-	(1,746,900)	-
School administration	10,319,780	-	-	-	(10,319,780)	-
Business services	2,456,293	-	-	-	(2,456,293)	-
Maintenance and operations	13,699,565	-	264,600	-	(13,434,965)	-
Transportation	6,170,893	-	685,484	-	(5,485,409)	-
Central services	5,187,534	-	-	-	(5,187,534)	-
Miscellaneous support services	328,128	-	-	-	(328,128)	-
Community services	1,350,354	512,099	-	-	(838,255)	-
Food services	2,686,195	712,856	2,110,661	-	137,322	-
Facilities acquisition and construction	959,595	-	-	-	(959,595)	-
Interest and fiscal charges	2,169,279	-	-	-	(2,169,279)	-
Total governmental activities	<u>\$ 143,196,561</u>	<u>\$ 1,479,971</u>	<u>\$ 11,054,105</u>	<u>\$ -</u>	<u>(130,662,485)</u>	<u>-</u>
Component unit activities						
Charter school	<u>\$ 2,152,664</u>	<u>\$ 167,021</u>	<u>\$ 70,528</u>	<u>\$ -</u>		<u>(1,915,115)</u>
General revenues:						
Property taxes					21,548,899	106,760
Specific ownership taxes					2,353,681	-
State equalization					56,099,745	-
Per pupil revenue					-	953,481
Investment earnings					838,626	-
Lottery funds					248,984	-
Miscellaneous revenues					1,315,701	52,973
Total general revenues					<u>82,405,636</u>	<u>1,113,214</u>
Change in net position					(48,256,849)	(801,901)
Net position - beginning, as restated (deficit)					<u>(138,843,713)</u>	<u>(2,632,855)</u>
Net position - ending (deficit)					<u>\$ (187,100,562)</u>	<u>\$ (3,434,756)</u>

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Widefield Parks And Recreation Fund	Bond Redemption Fund	Building Fund	Total Non-major Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 22,491,050	\$ 4,747,422	\$ -	\$ 50,876,864	\$ 4,686,779	\$ 82,802,115
Investments	7,156,068	-	-	-	-	7,156,068
Receivables:						
Grants receivable	192,114	-	-	-	1,143,284	1,335,398
Accrued interest	22,227	-	-	-	-	22,227
Property Taxes:						
Current	364,637	42,465	102,601	-	-	509,703
County treasurer	234,150	27,031	65,629	-	-	326,810
Inventories and prepaid expenses	269,615	-	-	-	94,778	364,393
Receivable from agency funds	63,158	-	-	-	191	63,349
Due from other funds	339,487	-	156,363	-	109,811	605,661
Restricted cash and cash equivalents	-	-	6,729,486	-	-	6,729,486
Other assets	10,000	-	-	-	-	10,000
Total assets	<u>\$ 31,142,506</u>	<u>\$ 4,816,918</u>	<u>\$ 7,054,079</u>	<u>\$ 50,876,864</u>	<u>\$ 6,034,843</u>	<u>\$ 99,925,210</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 2,078,852	\$ 52,605	\$ -	\$ 1,623,489	\$ 245,791	\$ 4,000,737
Payable to charter school	82,988	-	-	-	37,730	120,718
Payable to agency funds	-	2,565	-	-	50,742	53,307
Due to other funds	-	37,812	-	11,182	556,667	605,661
Accrued compensation	6,796,311	-	-	-	712,187	7,508,498
Unearned revenue	71,736	-	-	-	-	71,736
Accrued compensated absences	100,088	20	-	-	-	100,108
Total liabilities	<u>9,129,975</u>	<u>93,002</u>	<u>-</u>	<u>1,634,671</u>	<u>1,603,117</u>	<u>12,460,765</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	162,627	18,963	45,662	-	-	227,252
Total deferred inflows of resources	<u>162,627</u>	<u>18,963</u>	<u>45,662</u>	<u>-</u>	<u>-</u>	<u>227,252</u>
FUND BALANCES						
Nonspendable	269,615	-	-	-	94,778	364,393
Restricted:						
Debt service	-	-	7,008,417	-	-	7,008,417
TABOR	2,470,000	-	-	-	-	2,470,000
Multi-year obligations	458,586	-	-	-	-	458,586
Committed for:						
Grand Mountain School operations	860,000	-	-	-	-	860,000
Assigned:						
Risk management	22,615	-	-	-	-	22,615
Supplies carryover	503,087	-	-	-	-	503,087
Print shop	263,802	-	-	-	-	263,802
Textbooks and curriculum	663,274	-	-	-	-	663,274
Other governmental funds	-	4,704,953	-	49,242,193	4,336,948	58,284,094
Unassigned	16,338,925	-	-	-	-	16,338,925
Total fund balances	<u>21,849,904</u>	<u>4,704,953</u>	<u>7,008,417</u>	<u>49,242,193</u>	<u>4,431,726</u>	<u>87,237,193</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 31,142,506</u>	<u>\$ 4,816,918</u>	<u>\$ 7,054,079</u>	<u>\$ 50,876,864</u>	<u>\$ 6,034,843</u>	<u>\$ 99,925,210</u>

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

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

Total fund balance - governmental funds	\$	87,237,193
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$82,393,678 and the accumulated depreciation is \$33,286,236.		49,107,442
Certain property taxes receivable are not available to pay current period expenditures and, therefore, are deferred in the fund financial statements.		227,252
Deferred charges on refunding are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.		785,779
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.		
Deferred outflows - pension	\$ 94,375,383	
Deferred outflows - OPEB	<u>276,772</u>	94,652,155
Accrued interest is not due and payable in the current period, and therefore is not reported as a liability in the funds.		(216,720)
Net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net pension liability	\$ (327,442,070)	
Net OPEB liability	<u>(7,477,191)</u>	(334,919,261)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.		
Deferred inflows - pension	\$ (17,810,846)	
Deferred inflows - OPEB	<u>(235,018)</u>	(18,045,864)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.		<u>(65,928,538)</u>
Net position of governmental activities in the statement of net position	\$	<u><u>(187,100,562)</u></u>

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Widefield Parks And Recreation Fund	Bond Redemption Fund	Building Fund	Total Non-major Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 17,075,525	\$ 2,028,866	\$ 4,730,242	\$ -	\$ -	\$ 23,834,633
Intergovernmental	60,681,269	-	-	-	6,331,013	67,012,282
Fees for services	-	512,099	-	-	698,813	1,210,912
Investment income	231,090	61,465	66,989	431,754	61,372	852,670
Tuition	60,462	-	-	-	-	60,462
Miscellaneous	1,687,432	11,612	-	-	201,762	1,900,806
Total revenues	79,735,778	2,614,042	4,797,231	431,754	7,292,960	94,871,765
EXPENDITURES						
Instruction	38,659,054	-	-	145,924	3,385,690	42,190,668
Student support	5,448,191	-	-	-	110,144	5,558,335
Instructional staff	3,572,465	-	-	-	571,869	4,144,334
General administration	1,004,782	-	-	242	-	1,005,024
School administration	5,214,500	-	-	-	-	5,214,500
Business services	2,161,061	-	-	21,046	-	2,182,107
Maintenance and operations	10,162,758	651,495	-	35,435	52,973	10,902,661
Pupil transportation	3,553,394	-	-	697,092	42,835	4,293,321
Central services	3,591,644	-	-	9,249	-	3,600,893
Other support services	161,768	-	-	-	-	161,768
Community services	-	1,336,442	-	-	13,913	1,350,355
Facilities acquisition and construction	-	57,385	-	3,456,998	1,427,594	4,941,977
Food service operations	-	-	-	-	2,646,126	2,646,126
Debt service						
Principal retirement	110,000	-	1,535,000	3,235,000	485,000	5,365,000
Interest and fiscal charges	25,615	-	1,102,675	27,484	60,728	1,216,502
Other debt services	-	-	-	454,598	-	454,598
Total expenditures	73,665,232	2,045,322	2,637,675	8,083,068	8,796,872	95,228,169
Excess (deficiency) of revenues over expenditures	6,070,546	568,720	2,159,556	(7,651,314)	(1,503,912)	(356,404)
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	(2,100,000)	-	-	-	2,100,000	-
Debt proceeds						
Bonds issued	-	-	-	49,500,000	-	49,500,000
Premium on bonds issued	-	-	-	7,393,507	-	7,393,507
Total other financing sources (uses)	(2,100,000)	-	-	56,893,507	2,100,000	56,893,507
Net change in fund balances	3,970,546	568,720	2,159,556	49,242,193	596,088	56,537,103
Fund balances - beginning	17,879,358	4,136,233	4,848,861	-	3,835,638	30,700,090
Fund balances - ending	\$ 21,849,904	\$ 4,704,953	\$ 7,008,417	\$ 49,242,193	\$ 4,431,726	\$ 87,237,193

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

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

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

Net change in fund balances - total governmental funds	\$	56,537,103
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 outlays exceeded depreciation in the current period.		5,021,627
Property tax revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds.		67,947
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Debt principal payments		5,365,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount represents the change to interest reported in the statement of activities.		
Bond accrued interest		(193,949)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt related items.		
Debt proceeds and amortization		(57,197,737)
In the statement of activities, certain operating expenses - compensated absences (sick leave), special termination benefits (early retirement)-are measured by the amounts <i>earned</i> during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually <i>paid</i>). This amount represents the net effect of compensated absences payable on the statement of activities.		(821,011)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Pension expenses	\$ (56,953,773)	
OPEB expenses	(82,056)	(57,035,829)
<hr/>		
Change in net position of governmental activities	\$	<u><u>(48,256,849)</u></u>

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 1,419,934
Prepaid Expense	1,000
Receivable from charter school	2,115
Total assets	1,423,049
LIABILITIES	
Accounts payable	5,803
Payable to primary government	10,044
Due to student/other organizations	1,407,202
Total liabilities	\$ 1,423,049

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

NOTES TO FINANCIAL STATEMENTS

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of El Paso County School District No. 3, Colorado Springs, Colorado (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. REPORTING ENTITY

El Paso County School District No. 3 was organized in 1874. The District provides education services to the residents in the southeast section of El Paso County. It is governed by a five member Board of Education, which is the policy-making body of the District. The inclusion or exclusion of component units is based on a determination of the elected official's financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government and discretely presented component unit. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing, and the primary recipient of services.

The District Board of Education approved one charter school to continue operations during fiscal year 2017-2018. James Madison Charter Academy (JMCA) was formed in accordance with state statutes for operation as a District charter school. This District component unit was deemed to be fiscally dependent upon the District since the District provided the majority of support to it in the form of per pupil revenue. The amount of state equalization allotted to James Madison Charter Academy for the year ended June 30, 2018 was \$953,481.

In addition, the members of JMCA's governing board are appointed separately from the District. JMCA has been deemed to be a separate legal entity based on the formation of the school in accordance with state statutes. JMCA is presented as a discrete component unit of the District as the potential exists that their exclusion from the District's financial reporting entity would result in misleading financial reporting. Financial statements for JMCA may be obtained by writing to the charter school.

The Security Public Library provides services to students and the general public within the boundaries of the District. The District's Board of Education approves the selection of the Library Board of Directors. The entity is being excluded from the District's financial statements based upon the criteria listed in the preceding paragraph.

C. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The statement of activities demonstrates the degree to which direct expenses of given functions or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

D. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, and fiduciary – are presented. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the District is consistent with legal and managerial requirements.

The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

The *Bond Redemption Fund* accounts for the servicing of long-term debt not financed by other funds.

The *Widefield Parks and Recreation Fund* is used to account for all financial activities of Widefield Parks and Recreation. This fund receives tax revenues for park and recreation activities.

The *Building Fund* accounts for all resources available for acquiring capital sites, buildings, and equipment.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

The *Pupil Activity Fund* is used to account for the revenues and expenditures related to school sponsored student intrascholastic and interscholastic athletic and other related activities. This fund receives subsidies from the General fund.

The *Food Service Fund* is used for all financial activities associated with the District's school food service program. This fund is required to account for USDA school breakfast and lunch money received by the District.

The *Governmental Designated-Purpose Grants Fund* is used to record financial transactions for grants received for designated programs funded by federal, state or local governments.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS (CONTINUED)

The *Conservation Trust Fund* is used for improving the park and recreation areas. Funds are received from the Colorado Lottery.

The *Capital Projects Fund* is used to account for significant capital expenditures of the District.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *Agency Funds* are custodial in nature and do not present results of operations or a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The various activities that are accounted for in the agency funds include student activity, parent teacher organizations and building employee accounts.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt are reported as other financing sources, and acquisitions of capital leased assets are reported as other financing uses.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Those revenues susceptible to accrual are property taxes, interest revenue and charges for services. Specific ownership taxes collected and held by the County at year-end on behalf of the District are also recognized as revenue. Other revenues, such as transportation, vocational and special education, are not susceptible to accrual because, generally, they are not measurable until received in cash. Entitlements and shared revenues are recorded at the time of receipt or earlier if the accrual criteria are met. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash and Investments

The District's cash and cash equivalents are considered to be: cash on hand; cash in the bank; and liquid investments which have a maturity of one month or less when purchased or which are subject to withdrawal.

Under Colorado statutes and Board of Education Investment Policy, the District may lawfully invest eligible funds in the following securities:

- a. Obligations of the United States and certain U.S. government agencies' securities;
- b. Certain international agencies' securities;
- c. General obligation and revenue bonds of U.S. local government entities;
- d. Bankers' acceptances of certain banks;
- e. Commercial paper which holds the highest credit rating category and with a maturity within 180 days;
- f. Local government investment pools;
- g. Written repurchase agreements collateralized by certain authorized securities;
- h. Certain money market funds;
- i. Guaranteed investment contracts.

The District may also deposit funds in Colorado financial institutions, which are members of the Federal Deposit Insurance Corporation. State law requires the Board to approve any investment with maturity in excess of five years. Investments for the District, as well as for its component unit, are reported at fair value.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Inventories

Inventories are valued on the average cost basis. When individual inventory items are purchased they are recorded as assets. When they are consumed they are recorded as expenditures in governmental funds.

Inventories purchased by the Food Service Fund are stated at cost as determined by the first-in, first-out method. Commodity inventories are stated at USDA's assigned values, which approximate fair value at the date of receipt.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Restricted Cash and Cash Equivalents

Certain proceeds of the District's Bond Redemption Debt Service Fund, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include land, buildings and improvements, and equipment, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$5,000 in all funds to maintain a balance between accountability of assets and managing the cost of recording and tracking these assets. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for buildings and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable. Buildings, improvements and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20
Buildings & Improvements	10-100
Furniture & Equipment	5-15
Vehicles	8

Pensions

El Paso County School District No. 3 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.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018*.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Health Care Trust Fund

El Paso County School District No. 3 participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows/inflows of resources

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

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

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Fund balance flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Education or through the Board of Education delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as *program revenues*. For example, general revenues include all taxes.

Compensated Absences and Severance Incentive Benefit Amounts

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits, which will be paid to employees upon separation from District service. All vacation and eligible sick pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

H. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. ADOPTION OF NEW ACCOUNTING STANDARDS

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB)*, effective July 1, 2017. This Statement establishes standards of accounting and financial reporting for defined benefit Health Care Trust funds provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. As a result, net position at June 30, 2017, was restated to reflect the cumulative effect of adopting the standards.

Net Position, June 30, 2017, as Originally Stated	\$(131,490,331)
Adjustment to fund balance	<u>(7,353,382)</u>
Net Position, June 30, 2017, as Restated (deficit)	<u><u>\$(138,843,713)</u></u>

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Colorado statutes require that boards of education of school districts adopt a budget and appropriation resolution each fiscal year. The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements. By state law, budgets are required for all funds, except fiduciary funds. Annual appropriated budgets are adopted for all funds. At least thirty days prior to July 1, the Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and means of financing them.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Public hearings are conducted by the Board of Education to obtain taxpayer comments. On or before June 30, the budget is adopted by formal resolution. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budget amounts between functions within any fund and the reallocation of budget line items within any department in the General Fund rests with the Superintendent of Schools or department directors. Revisions that alter the total expenditures of any fund must be approved by the Board of Education. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Education throughout the year.

Budgets for all fund types are adopted on a basis consistent with generally accepted accounting principles. GAAP-basis accounting requires that expenditures of salaries and related benefits be recorded in the fiscal year *earned*. Thus, school districts budget for all accrued salaries and related benefits earned but unpaid at June 30.

Appropriations in governmental funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitments. All original and supplemental unencumbered appropriations for all funds lapse at the end of the fiscal year. No encumbrances are recorded as committed or assigned fund balance in the General Fund as of June 30, 2018. Encumbrances do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

The District's restricted and unrestricted cash and investments, exclusive of the component unit, consist of the following at June 30, 2018:

	Unrestricted Cash and Cash <u>Equivalents</u>	Restricted Cash and Cash <u>Equivalents</u>	Unrestricted <u>Investments</u>	<u>Total</u>
Deposits	\$ 838,996	\$ -	\$ -	\$ 838,996
Money Market	127,390	-	-	127,390
US Treasury	-	-	3,757,533	3,757,533
US Instrumentalities	-	-	2,645,790	2,645,790
US Corporate	-	-	496,643	496,643
Supranational	-	-	247,885	247,885
Commercial paper	990,175	-	8,217	998,392
ColoTrust	<u>80,845,554</u>	<u>6,729,486</u>	-	<u>87,575,040</u>
Subtotal Investments	<u>81,963,119</u>	<u>6,729,486</u>	<u>7,156,068</u>	<u>95,848,673</u>
Total Cash and Investments	<u>\$ 82,802,115</u>	<u>\$ 6,729,486</u>	<u>\$ 7,156,068</u>	<u>\$ 96,687,669</u>

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits might not be recovered. However, the Colorado Public Deposit Protection Act (PDPA) requires that all units of local governments deposit cash at eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral is determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The carrying amount of the District’s deposits at June 30, 2018 was \$838,996 and the bank balances were \$1,510,016. Of the bank balances, \$250,000 was covered by federal deposit insurance and \$1,260,016 was uninsured but collateralized in accordance with the provisions of the Colorado Public Deposit Protection Act (PDPA). The collateral is pooled and held in trust for all uninsured deposits as a group.

Investments

At June 30, 2018 the District’s investment balances were as follows:

<u>Investments</u>	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>	<u>Standard & Poor’s Rating</u>
ColoTrust	Less than 1 year	\$ 87,575,040	AAAm
Money market mutual funds	Less than 1 year	127,390	AAA
Commercial Paper	Less than 1 year	998,392	A-1
Supranational	1.85 years	247,885	AAA
US Corporate	1.85 years	496,643	AA
US Treasury securities	1.85 years	3,757,533	AA+
US Instrumentalities	1.85 years	<u>2,645,790</u>	AA+
	Total Investments	<u>\$ 95,848,673</u>	
Portfolio weighted average maturity	0.14		

The District’s investments are subject to interest rate risk and credit risk as described below:

Interest Rate Risk – The District has a board approved investment policy that limits investment maturities to five years or less, as a means of managing its exposure to fair value loss resulting from increasing interest rates. The Colorado revised statute 24-75-601 also limits investment maturities to five years or less.

Credit Risk – State law limits investments for school districts to U.S. treasury issues, other federally backed notes and credits, and other agency offerings. Other investment instruments including bank obligations, general obligation bonds, and commercial paper are limited to at least one of the highest rating categories of at least one nationally recognized rating agency. State law further limits investments in money market funds to those institutions with over \$1 billion in assets or the highest credit rating from one or more of a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices. ColoTrust net assets were over \$3 billion on December 31, 2017. The entity maintains a constant net asset value of \$1 per share. Financial statements for ColoTrust may be obtained from the www.ColoTrust.com website.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – FAIR VALUE MEASUREMENT

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

- Level 1 inputs reflect prices quoted in active markets.
- Level 2 inputs reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 inputs reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Investments classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Investments classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
US Treasury	\$ -	\$ 3,757,533	\$ -	\$ 3,757,533
US Instrumentalities	-	2,645,790	-	2,645,790
US Corporate	-	496,643	-	496,643
Supranational	-	247,885	-	247,885
Commercial paper	-	<u>998,392</u>	-	<u>998,392</u>
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 8,146,243</u>	<u>\$ -</u>	<u>\$ 8,146,243</u>

NOTE 5: TAXES

Property Taxes

Property taxes for the current year are certified in arrears to the County by December 15 and attach as an enforceable lien on property the following January 1. Property taxes are payable in full by April 30 or are payable in two equal installments due February 28 and June 15. The County Treasurer bills and collects the District’s property tax. District property tax revenues are recognized when levied to the extent they result in current receivables.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5: TAXES (CONTINUED)

Property Taxes (continued)

The District is permitted to levy taxes on the assessed valuation for general governmental services and for the payment of principal and interest on long-term debt. The tax rate for the year ended December 31, 2018 is 42.440 mills for general operating expenses, including a 20.430 mill levy override, 4.935 mills for the Widefield Parks and Recreation, and 11.972 mills for the payment of long-term debt. The District's assessed valuation for the collection year 2018 is \$364,674,720.

Specific Ownership Taxes

Specific ownership taxes are collected by the county for motor vehicle and other personal property registered in the District's assessment area. The tax receipts collected by the county are remitted to the District in the subsequent month. Specific ownership taxes are recorded as revenue when collected by the county.

NOTE 6: INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Receivables and Payables

All inter-fund receivables and payables are created in conjunction with intra-District activity. Balances are routinely cleared as a matter of practice. The following schedule reflects the District's inter-fund receivables and payables as of June 30, 2018:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 339,487	\$ -
Widefield Parks and Recreation Fund	-	37,812
Bond Redemption Fund	156,363	-
Building Fund	-	11,182
Non-major Funds	<u>109,811</u>	<u>556,667</u>
Total	<u>\$ 605,661</u>	<u>\$ 605,661</u>

Interfund Transfers

	<u>Transfers in:</u>
	Capital
	<u>Projects fund</u>
Transfers out:	
General fund	<u>\$ 2,100,000</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Primary Government			
	Balance 6/30/2017	Additions	Sales and Retirements	
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 1,381,733	\$ -	\$ -	\$ 1,381,733
Construction in progress	264,203	3,949,313	(264,203)	3,949,313
Total non-depreciable assets	<u>1,645,936</u>	<u>3,949,313</u>	<u>(264,203)</u>	<u>5,331,046</u>
Depreciable assets:				
Buildings and improvements	61,234,734	2,719,570	-	63,954,304
Equipment	12,085,002	1,320,052	(296,726)	13,108,328
Total depreciable assets	<u>73,319,736</u>	<u>4,039,622</u>	<u>(296,726)</u>	<u>77,062,632</u>
Less accumulated depreciation for:				
Buildings	(22,546,348)	(1,949,657)	-	(24,496,005)
Equipment	(8,333,509)	(753,448)	296,726	(8,790,231)
Total accumulated depreciation	<u>(30,879,857)</u>	<u>(2,703,105)</u>	<u>296,726</u>	<u>(33,286,236)</u>
Total depreciable assets, net	<u>42,439,879</u>	<u>1,336,517</u>	<u>-</u>	<u>43,776,396</u>
Governmental activities capital assets, net	<u>\$ 44,085,815</u>	<u>\$ 5,285,830</u>	<u>\$ (264,203)</u>	<u>\$ 49,107,442</u>

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

Governmental Activities:	
Instruction	\$ 1,644,838
Support services- students	69,950
Support services- instructional	60,983
General administration	2,382
School administration	150,170
Business services	2,767
Operations and maintenance	426,578
Transportation services	225,790
Central services	66,216
Food service	53,431
Total governmental activities	<u>\$ 2,703,105</u>

NOTE 8: ACCRUED COMPENSATION / COMPENSATED ABSENCES

Salaries of certain school-based personnel are paid over a ten or twelve-month period beginning in September but are earned during a school year of approximately nine to ten months. The salaries earned, but unpaid, as of June 30, 2018 are:

Governmental Activities:	
General Fund	\$ 6,796,311
Designated Purpose Grant Fund	582,055
Food Service	<u>130,132</u>
Total Governmental Activities	<u>\$ 7,508,498</u>

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8: ACCRUED COMPENSATION / COMPENSATED ABSENCES (CONTINUED)

The District accrues compensated absences to provide an accurate reporting of liabilities associated with vacation and sick leave. These benefits, earned, but unpaid, and the activity for the year ended June 30, 2018 are:

Governmental Activities:	
General Fund	\$ 2,599,961
Widefield Parks and Recreation Fund	20
Non-major	<u>134,915</u>
Total Governmental Activities	<u>\$ 2,734,896</u>

NOTE 9: LONG-TERM LIABILITIES

General Obligation Bonds Payable

General Obligation bonds payable at June 30, 2018, are as follows:

<u>Description, Interest Rates and Maturity Dates</u>	<u>Principal Balance</u>
On September 17, 2009, the District issued Series 2009 in the original amount of \$11,280,000. The bonds were issued to refund the District's General Obligation Bonds, Series 1999 maturing on and after December 15, 2010. Series 2009 interest rates to maturity are 2.00 to 5.00%.	\$ 3,500,000
On September 20, 2012, the District issued Series 2012 in the original amount of \$3,990,000. The bonds were issued to refund the District's General Obligation Bonds, Series 2002 maturing on and after December 15, 2013. Series 2012 interest rates to maturity are 2.00 to 3.00%.	1,865,000
On January 24, 2018, the District issued Series 2018 in the original amount of \$49,500,000. The bonds were issued to (i) currently refund certain of the District's Certificates of Participation, Series 2013; (ii) finance the acquisition, construction, installation and equipping of the capital projects as approved by the District's voters at an election held on November 7, 2017; and (iii) pay the costs of issuance of the Bonds. Series 2018 interest rate to maturity is 5.00%.	<u>49,500,000</u>
Total Outstanding Bonds	<u>\$ 54,865,000</u>

The following schedule reflects the debt service requirements to maturity of the District's governmental activities general obligation bonds as of June 30, 2018:

	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,465,000	\$ 2,630,094	\$ 5,095,094
2020	2,715,000	2,522,500	5,237,500
2021	2,825,000	2,399,125	5,224,125
2022	1,695,000	2,295,725	3,990,725
2023	1,265,000	2,226,625	3,491,625
2024-2028	7,335,000	10,094,125	17,429,125
2029-2033	9,365,000	8,016,125	17,381,125
2034-2038	11,950,000	5,365,000	17,315,000
2039-2043	15,250,000	1,980,500	17,230,500
Total	<u>\$ 54,865,000</u>	<u>\$37,529,819</u>	<u>\$ 92,394,819</u>

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9: LONG-TERM LIABILITIES (CONTINUED)

Computation of Legal Debt Margin

Assessed valuation	<u>\$364,674,720</u>
Debt Limit – 20 percent of assessed valuation	\$72,934,944
General obligation debt outstanding	<u>(54,865,000)</u>
Legal Debt Margin Available	<u>\$18,069,944</u>

In accordance with Section 22-45-103, C.R.S., the District’s bond redemption fund custodian for fiscal year 2018 was Wells Fargo, a third party. The amount held by the custodian was \$6,729,486 for the year ended June 30, 2018.

Certificates of Participation

In July 2013, the District issued \$4,670,000 in Certificates of Participation. Principal payments are due annually on December 1 and interest payments are due on June 1 and December 1, through December 2023. Interest accrues at rates ranging from 1.40% to 4.00%. Proceeds of the Certificates were used to finance the remodeling of Martin Luther King Jr. Elementary school. The Certificates of Participation were paid in full in 2018 with proceeds from the 2018 bonds.

Changes in Long-Term Liabilities

The changes in governmental activities long-term liabilities for the year ended June 30, 2018, are as follows:

	Balance <u>06/30/17</u>	Additions	Reductions	Balance <u>06/30/18</u>	Due Within <u>One Year</u>
Bonds payable					
General obligation bonds	\$ 6,900,000	\$ 49,500,000	\$ 1,535,000	\$ 54,865,000	\$ 2,465,000
Premiums	<u>260,773</u>	<u>7,393,507</u>	<u>205,530</u>	<u>7,448,750</u>	-
Total bonds payable	7,160,773	56,893,507	1,740,530	62,313,750	2,465,000
Certificates of participation	3,720,000	-	3,720,000	-	-
Capital leases	1,090,000	-	110,000	980,000	115,000
Compensated absences	<u>1,922,475</u>	<u>821,012</u>	<u>8,591</u>	<u>2,734,896</u>	<u>100,108</u>
Total long-term liabilities	<u>\$ 13,893,248</u>	<u>\$ 57,714,519</u>	<u>\$ 5,579,121</u>	<u>\$ 66,028,646</u>	<u>\$ 2,680,108</u>

The General Obligation debt is liquidated to the Bond Redemption Fund. Compensated absences are liquidated as incurred to the respective funds.

NOTE 10: CONTINGENCIES

Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. Eligible employees of the El Paso County School District No. 3 are provided with pensions through the School Division Trust Fund (SCHDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2017. 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 years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

As of December 31, 2017, 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 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Contributions provisions as of June 30, 2018: Eligible employees and El Paso County School District No. 3 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:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer contribution rate ¹	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.50%
Total employer contribution rate to the SCHDTF¹	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the El Paso County School District No. 3 is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from El Paso County School District No. 3 were \$8,926,253 for the year ended June 30, 2018.

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

At June 30, 2018, the El Paso County School District No. 3 reported a liability of \$327,442,070 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 El Paso County School District No. 3 proportion of the net pension liability was based on El Paso County School District No. 3 contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the El Paso County School District No. 3's proportion was 1.0126099514 percent, which was a decrease of 0.0171387716 percent from its proportion measured as of December 31, 2016.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2018, the El Paso County School District No. 3 recognized pension expense of \$65,880,026. At June 30, 2018, the El Paso County School District No. 3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 6,020,280	\$ -
Changes of assumptions or other inputs	83,608,125	530,557
Net difference between projected and actual earnings on pension plan investments	-	12,858,962
Changes in proportion and differences between contributions recognized and proportionate share of contributions	219,342	4,421,327
Contributions subsequent to the measurement date	4,527,636	-
Total	\$ 94,375,383	\$ 17,810,846

\$4,527,636 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 49,107,124
2020	\$ 27,887,754
2021	\$ (120,385)
2022	\$ (4,837,592)
2023	\$ -
Thereafter	\$ -

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

A discount rate of 4.78 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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

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

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

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

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

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

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

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

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

Discount rate. The discount rate used to measure the total pension liability was 4.78 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the 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.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

- 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 Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

Sensitivity of the El Paso County School District No. 3 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 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$ 413,615,025	\$ 327,442,070	\$ 257,220,952

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.

Changes between the measurement date of the net pension liability and June 30, 2018.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018, the El Paso County School District No. 3 reported a liability of \$327,442,070 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the El Paso County School District No. 3 proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 147,935,489

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$152,852,004 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS

Health Care Trust Fund

Plan description. Eligible employees of the El Paso County School District No. 3 are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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

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

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

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

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

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the El Paso County School District No. 3 is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from El Paso County School District No. 3 were \$482,250 for the year ended June 30, 2018.

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

At June 30, 2018, the El Paso County School District No. 3 reported a liability of \$7,477,191 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The El Paso County School District No. 3 proportion of the net OPEB liability was based on El Paso County School District No. 3 contributions to the HCTF for calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the El Paso County School District No. 3 proportion was 0.5753455746 percent, which was a decrease of 0.0099823790 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the El Paso County School District No. 3 recognized OPEB expense of \$564,306. At June 30, 2018, the El Paso County School District No. 3 reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 35,361	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	125,092
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	109,926
Contributions subsequent to the measurement date	241,411	N/A
Total	\$ 276,772	\$ 235,018

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

\$241,411 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
2019	\$ (45,923)
2020	\$ (45,923)
2021	\$ (45,923)
2022	\$ (45,911)
2023	\$ (14,647)
Thereafter	\$ (1,330)

Actuarial assumptions. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

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

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

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on 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.

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

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

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

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

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

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

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

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

Sensitivity of the El Paso County School District No. 3 proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 7,271,465	\$ 7,477,191	\$ 7,724,975

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

- 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. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

Sensitivity of the El Paso County School District No. 3 proportionate share of the net OPEB liability to changes in the discount rate. The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 8,406,714	\$ 7,477,191	\$ 6,683,818

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

NOTE 13: DEFINED CONTRIBUTION PENSION PLAN

Plan Description. Employees of the District who are members of the SCHDTF (see Note 11) may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the 401(k) provisions to the State Legislature. PERA issues a publicly available Annual Report for Colorado PERA’s 401(k) and DC plans. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 1-800-759-PERA (7372).

Funding Policy. The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$18,000 for the calendar year 2017 and 2018). In addition, catch-up contributions, up to \$6,000 for the calendar years 2017 and 2018, were allowed for participants who had attained age 50 before the close of the plan year, subject to the limitations of IRC §414(v). The contribution requirements for the District are established under Title 24, Article 51, Section 1402 of the C.R.S., as amended.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14: JOINT VENTURES

Colorado Educational Benefits Trust (CEBT) is a separate legal entity originally established by twenty-two member school districts pursuant to the provisions of Colorado Revised Statutes and the Colorado Constitution. In 1982, the school board passed a resolution which authorized the District to participate in the agency. The District has participated every year since. Starting in July 2007, the Assistant Superintendent of the District has served as treasurer on the board of directors for CEBT.

The purpose of CEBT is to provide members the benefits of decreased costs in obtaining medical, life, dental and vision coverage for the employees of the member districts. The expense of coverage paid to CEBT is paid annually from the fund in which the employee receives compensation. Contingent liability claims for the coverage have not been recognized to date after reviewing claims history and the remoteness of potential loss in excess of school contributions by the District.

It is the intent of the members of CEBT to operate an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with bylaws, any member of CEBT against stated liability or loss to the limit of the financial resources of CEBT. It is also the intent of the members to have CEBT provide continuing stability and availability of needed coverage at reasonable costs. All income and assets of CEBT shall be at all times dedicated to the exclusive benefit of its members. CEBT is a separate legal entity and under Colorado Law is not required to prepare budgets. The District does not have the ability to significantly affect the operations of the unit.

Condensed financial information for the CEBT pool for the year ended June 30, 2017 is as follows:

Assets	\$	58,643,000
Liabilities		28,323,000
Net Position	\$	30,320,000
Revenue	\$	177,218,000
Expenses		179,452,000
Decrease in Net Position	\$	(2,234,000)

CEBT issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Trust's administrator, Willis of Colorado, Inc., 2000 S. Colorado Blvd., Tower II, Suite 900, Denver, CO 80222.

NOTE 15: VOC-ED PARTNERSHIP

On July 19, 2016 the District entered in a partnership with Peyton School District No. 23 JT (Peyton) under C.R.S. 29-1-2013(4) to provide vocational education services in their respective service areas through a single shared location under joint management. During the year ended June 30, 2018, the District contributed \$579,504 to the partnership activities in operating and capital contributions. As of June 30, 2018, the District had a 73.16% interest in the partnership.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 16: RISK RELATED ACTIVITIES

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other districts to form the Colorado School Districts Self Insurance Pool (the "Pool"), a public entity risk pool currently operating as a common risk management and insurance program for member school districts. Participation in the pool is approved by and managed under regulations promulgated by the Colorado State Insurance Division of Regulatory Agencies. The District pays an annual premium to the pool for its general property and liability insurance coverage. The agreement with the pool proves that the pool will be self-sustaining through member premiums. The District made an initial capital contribution to the pool and, upon termination of the pool, subject to available assets, the capital contributions will be returned to the District.

The District's contribution to the pool mentioned above is funded by premium contributions from the Risk Management Fund. The Fund is also used to cover the purchase of commercial insurance for property, liability and worker's compensation coverage not provided in the pool agreement, and to partially fund salaries and other costs for risk management and loss control. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Condensed financial information for the Pool for the six months ended June 30, 2017 is as follows:

Assets	\$	42,273,940
Liabilities		11,655,251
Capital and Surplus		30,618,689
Total Liabilities, Capital and Surplus	\$	42,273,940
Revenue	\$	7,706,047
Expenses		(4,126,717)
Change in nonadmitted assets		235,606
Increase in Unassigned Surplus	\$	3,814,936

NOTE 17: COMMITMENTS AND CONTINGENCIES

Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. District management believes disallowances, if any, will be immaterial.

Construction commitments

The District has active construction projects as of June 30, 2018. The projects are primarily financed by the mill levy override and include re-roof of the Widefield Community Center, high school gym, wrestling room, and auditorium remodels, and elementary school upgrades. At year end the district's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining commitment
Mill levy override projects	\$ 2,181,526	\$ 29,902,581

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 18: TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments.

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Spending adjusted for allowable increases based upon inflation and local growth.

Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

The amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

In November of 1999 the voters passed an amendment allowing the District to retain excess revenues in 1999 and all future years.

On November 7, 2017 District voters approved the following ballot questions:

- Shall Widefield School District No. 3 taxes be increased \$3.5 million in 2018 and annually thereafter by an amount that, when combined with other taxes previously approved by District voters in 2002 for the District's General Fund, equals ten percent of the District's total program as provided by state law?
- Shall Widefield School District No. 3 debt be increased \$49.5 million, with a repayment cost of up to \$89 million, and shall District taxes be increased by up to \$3.6 million annually for the purpose of acquiring, constructing, refinancing, repairing and improving District capital assets?

Except for bond refinances at lower interest rates or adding employees to existing pension plans, the amendment may be construed as prohibiting the creation of multiple-fiscal year debt or other financial obligations without voter approval or the irrevocable pledging of present cash reserves for all future payments. The District does not have any multiple-fiscal year debt that requires a pledging of cash reserves.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The District is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. There is a \$2,240,000 restriction of fund balance in the General Fund for the amendment.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions including the interpretation of how to calculate Fiscal Year spending limits and qualifications as an enterprise will require judicial interpretation. Accordingly, the possibility exists that the District's interpretation of certain TABOR provisions may subsequently be determined to be incorrect. This could result in a potential refund of revenues unless voters approve retention of such revenue. The ultimate outcome of these matters cannot presently be determined and no provisions for any liability for a refund of revenue have been made in the financial statements.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 19: *TRUST AND AGENCY FUNDS*

The District acts as an agent for certain education programs. An Agency Fund is used to act as a custodian for other funds, governmental units, or private entities. Assets are recorded by the Agency Fund, held for a period of time as determined by legal contract or circumstances, and then returned to their owners. Agency funds do not use operating accounts such as revenues or expenditures because they serve only as a custodian, not as an operation.

The Non-Pupil Activity Fund and the Pupil Activity Fund receipts and disbursements are accounted for as Agency Funds since the District acts strictly in a fiduciary capacity. There are no subsidies or other support services provided to these activities.

REQUIRED SUPPLEMENTARY INFORMATION

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability (asset)	1.0126099514%	1.0297487230%	1.0522824491%	1.0773554077%	1.0801336807%
District's proportionate share of the net pension liability (asset)	\$ 327,442,070	\$ 306,596,015	\$ 160,939,171	\$ 146,017,846	\$ 137,770,759
District's covered payroll	\$ 46,710,500	\$ 46,216,967	\$ 45,858,228	\$ 45,133,463	\$ 43,543,628
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701.00%	663.38%	350.95%	323.52%	316.40%
Plan fiduciary net position as a percentage of the total pension liability	44.0%	43.1%	59.2%	62.8%	64.1%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S PAYROLL CONTRIBUTIONS - PENSION
JUNE 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 8,702,166	\$ 8,379,136	\$ 7,947,231	\$ 7,415,428	\$ 6,762,325
Contributions in relation to the contractually required contribution	<u>(8,702,166)</u>	<u>(8,379,136)</u>	<u>(7,947,231)</u>	<u>(7,415,428)</u>	<u>(6,762,325)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 46,710,500	\$ 46,216,967	\$ 45,858,228	\$ 45,133,463	\$ 43,543,628
Contributions as a percentage of covered payroll	18.63%	18.13%	17.33%	16.43%	15.53%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S SHARE OF THE NET OPEB LIABILITY
JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>
District's proportion of the net OPEB liability (asset)	0.5753455746%	0.5853279536%
District's proportionate share of the net OPEB liability (asset)	\$ 7,477,191	\$ 7,588,976
District's covered payroll	\$ 46,709,238	\$ 46,217,476
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.01%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.5%	16.7%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S PAYROLL CONTRIBUTIONS - OPEB
JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 476,434	\$ 471,418
Contributions in relation to the contractually required contribution	<u>(476,434)</u>	<u>(471,418)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 46,709,238	\$ 46,217,476
Contributions as a percentage of covered payroll	1.02%	1.02%

* The amounts presented for each fiscal year were determined as of 12/31.

* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

GENERAL FUND

This fund is used to account for and report all financial resources not accounted for and reported in another fund. Any lawful expenditure of the School District, including any expenditure of a nature that could be made from any other fund, may be made from the General Fund.

The General Fund is always considered to be a major fund for financial reporting purposes.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes				
Local property taxes	\$ 11,155,800	\$ 14,979,000	\$ 15,337,997	\$ 358,997
Specific ownership taxes	1,150,000	1,225,000	1,737,528	512,528
	<u>12,305,800</u>	<u>16,204,000</u>	<u>17,075,525</u>	<u>871,525</u>
Intergovernmental				
Federal				
Grants	1,192,500	1,142,500	1,204,423	61,923
State and other				
State equalization	55,631,392	55,400,900	56,099,745	698,845
Other state sources	415,020	468,520	338,737	(129,783)
Vocational education	146,000	146,000	196,833	50,833
ECEA	2,125,000	2,125,000	1,955,481	(169,519)
ELPA	-	-	111,834	111,834
Gifted and talented	-	-	88,732	88,732
Transportation	710,000	700,000	685,484	(14,516)
	<u>60,219,912</u>	<u>59,982,920</u>	<u>60,681,269</u>	<u>698,349</u>
Interest				
Investments	-	-	231,090	231,090
Other				
Tuition	-	-	60,462	60,462
Miscellaneous	2,007,329	2,999,244	1,687,432	(1,311,812)
	<u>2,007,329</u>	<u>2,999,244</u>	<u>1,747,894</u>	<u>(1,251,350)</u>
Total revenues	<u>74,533,041</u>	<u>79,186,164</u>	<u>79,735,778</u>	<u>549,614</u>
EXPENDITURES				
Instructional services	39,927,507	41,708,935	38,659,054	3,049,881
Support services- students	5,892,078	5,970,680	5,448,191	522,489
Support services- instructional staff	4,060,105	3,963,667	3,572,465	391,202
General administration	1,069,516	1,111,508	1,004,782	106,726
School administration	5,328,607	5,318,091	5,214,500	103,591
Business services	1,564,438	1,578,685	2,161,061	(582,376)
Maintenance and operations	8,262,178	9,370,512	10,162,758	(792,246)
Pupil transportation	3,236,234	3,308,109	3,553,394	(245,285)
Central services	3,800,364	4,284,067	3,591,644	692,423
Other support services	460,000	390,000	161,768	228,232
Debt service				
Interest and fiscal charges	135,615	135,615	135,615	-
Total expenditures	<u>73,736,642</u>	<u>77,139,869</u>	<u>73,665,232</u>	<u>3,474,637</u>
Excess (deficiency) of revenues over expenditures	<u>796,399</u>	<u>2,046,295</u>	<u>6,070,546</u>	<u>4,024,251</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(2,000,000)	(2,100,000)	(2,100,000)	-
Total other financing sources (uses)	<u>(2,000,000)</u>	<u>(2,100,000)</u>	<u>(2,100,000)</u>	<u>-</u>
Net change in fund balance	(1,203,601)	(53,705)	3,970,546	4,024,251
Fund balance, beginning of year	15,383,617	17,878,304	17,879,358	1,054
Fund balance, end of year	<u>\$ 14,180,016</u>	<u>\$ 17,824,599</u>	<u>\$ 21,849,904</u>	<u>\$ 4,025,305</u>

See the accompanying independent auditors' report.

WIDEFIELD PARKS AND RECREATION FUND

Used to record all transactions related to the operations of the Widefield Parks and Recreation Fund.

For financial reporting purposes, the Widefield Parks and Recreation Fund was determined to be a major fund of the District for the current fiscal year.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
WIDFIELD PARKS AND RECREATION FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Property tax	\$ 1,655,000	\$ 1,780,000	\$ 1,799,431	\$ 19,431
Specific ownership tax	175,000	195,000	229,435	34,435
Fees for services	510,000	510,000	512,099	2,099
Interest income	45,300	45,300	61,465	16,165
Miscellaneous	10,000	10,000	11,612	1,612
	<u>2,395,300</u>	<u>2,540,300</u>	<u>2,614,042</u>	<u>73,742</u>
EXPENDITURES				
Maintenance and operations	762,973	762,973	651,495	111,478
Community services	1,565,123	1,565,123	1,336,442	228,681
Facilities acquisition	67,204	67,204	57,385	9,819
Appropriated reserves	3,980,932	4,281,233	-	4,281,233
	<u>6,376,232</u>	<u>6,676,533</u>	<u>2,045,322</u>	<u>4,631,211</u>
Net change in fund balance	(3,980,932)	(4,136,233)	568,720	4,704,953
Fund balance - beginning	<u>3,980,932</u>	<u>4,136,233</u>	<u>4,136,233</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,704,953</u>	<u>\$ 4,704,953</u>

See the accompanying independent auditors' report.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

BOND REDEMPTION FUND

The District has one debt service fund, the Bond Redemption Fund. This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. This fund's primary revenue sources are local property taxes levied specifically for debt service

For financial reporting purposes, the Bond Redemption Fund was determined to be a major fund of the District for the current fiscal year.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BOND REDEMPTION FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Local property taxes	\$ 4,250,000	\$ 4,343,524	\$ 93,524
Specific ownership taxes	200,000	386,718	186,718
Investment Income	25,000	66,989	41,989
Total revenues	<u>4,475,000</u>	<u>4,797,231</u>	<u>322,231</u>
EXPENDITURES			
Debt service:			
Principal	1,535,000	1,535,000	-
Interest and fiscal charges	1,500,000	1,102,675	397,325
Other	2,500	-	2,500
Total expenditures	<u>3,037,500</u>	<u>2,637,675</u>	<u>399,825</u>
Net change in fund balance	1,437,500	2,159,556	722,056
Fund balance - beginning	<u>4,848,861</u>	<u>4,848,861</u>	<u>-</u>
Fund balance - ending	<u>\$ 6,286,361</u>	<u>\$ 7,008,417</u>	<u>\$ 722,056</u>

See the accompanying independent auditors' report.

BUILDING FUND

This fund is used to account for all resources available for acquiring capital sites, buildings, and equipment.

The Building Fund is deemed to be a major fund for financial reporting purposes.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ 25,000	\$ 431,754	\$ 406,754
Total revenues	-	25,000	431,754	406,754
EXPENDITURES				
Instruction	-	320,487	145,924	174,563
General administration	-	531	242	289
Business services	-	46,222	21,046	25,176
Maintenance and operations	-	77,824	35,435	42,389
Pupil transportation	-	1,530,994	697,092	833,902
Central services	-	20,313	9,249	11,064
Facilities acquisition	-	7,592,458	3,456,998	4,135,460
Debt services	-	8,163,670	3,717,082	4,446,588
Total expenditures	-	17,752,500	8,083,068	9,669,432
Excess (deficiency) of revenues over expenditures	-	(17,727,500)	(7,651,314)	10,076,186
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	49,500,000	56,893,507	7,393,507
Total other financing sources (uses)	-	49,500,000	56,893,507	17,469,693
Net change in fund balance	-	31,772,500	49,242,193	17,469,693
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ 31,772,500</u>	<u>\$ 49,242,193</u>	<u>\$ 17,469,693</u>

See the accompanying independent auditors' report.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for specified purposes. These funds may be required by statute or ordinance and others may be established through resolutions by the Board of Education for purposes of better administration. The District has the following Special Revenue Funds:

Governmental Designated-Purpose Grants Fund

Used to record financial transactions for grants received for designated programs funded by the federal government

Pupil Activity Fund

Used to record financial transactions related to school-sponsored pupil intra-scholastic and interscholastic athletic and related events. These activities are supported by revenues from pupils, gate receipts and other fund-raising activities.

Food Service Fund

This fund accounts for all financial activities associated with the District's school lunch program.

Conservation Trust Fund

Used for improving the community center's parks and recreation areas. Funds are derived from the lottery.

Capital Projects Fund

The Capital Projects Fund is used to account for significant capital expenditures of the District.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Governmental Designated Purpose Grants Fund	Pupil Activity Fund	Food Service Fund	Conservation Trust Fund	Capital Projects Fund	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 1,356,968	\$ 690,734	\$ 2,639,077	\$ 4,686,779
Receivables:						
Grants receivable	1,143,284	-	-	-	-	1,143,284
Inventories and prepaid expenses	-	-	94,778	-	-	94,778
Receivable from agency funds	-	-	191	-	-	191
Due from other funds	-	91,060	-	-	18,751	109,811
Total assets	<u>\$ 1,143,284</u>	<u>\$ 91,060</u>	<u>\$ 1,451,937</u>	<u>\$ 690,734</u>	<u>\$ 2,657,828</u>	<u>\$ 6,034,843</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 7,897	\$ 9,159	\$ 44,049	\$ -	\$ 184,686	\$ 245,791
Payable to charter school	37,730	-	-	-	-	37,730
Payable to agency funds	17,210	33,532	-	-	-	50,742
Due to other funds	498,392	-	28,293	29,982	-	556,667
Accrued compensation	582,055	-	130,132	-	-	712,187
Total liabilities	<u>1,143,284</u>	<u>42,691</u>	<u>202,474</u>	<u>29,982</u>	<u>184,686</u>	<u>1,603,117</u>
FUND BALANCES						
Nonspendable	-	-	94,778	-	-	94,778
Assigned:						
Pupil activities	-	48,369	-	-	-	48,369
Capital outlays	-	-	-	660,752	2,473,142	3,133,894
Food services	-	-	1,154,685	-	-	1,154,685
Total fund balances	<u>-</u>	<u>48,369</u>	<u>1,249,463</u>	<u>660,752</u>	<u>2,473,142</u>	<u>4,431,726</u>
Total liabilities and fund balances	<u>\$ 1,143,284</u>	<u>\$ 91,060</u>	<u>\$ 1,451,937</u>	<u>\$ 690,734</u>	<u>\$ 2,657,828</u>	<u>\$ 6,034,843</u>

See the accompanying independent auditors' report.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Designated Purpose Grants Fund	Pupil Activity Fund	Food Service Fund	Conservation Trust Fund	Capital Projects Fund	Total
REVENUES						
Intergovernmental	\$ 4,034,566	\$ -	\$ 2,047,463	\$ 248,984	\$ -	\$ 6,331,013
Fees for services	-	-	698,813	-	-	698,813
Interest	-	-	14,043	12,416	34,913	61,372
Other	-	79,722	63,198	-	58,842	201,762
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	4,034,566	79,722	2,823,517	261,400	93,755	7,292,960
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES						
Instruction	3,297,434	88,256	-	-	-	3,385,690
Student support	110,144	-	-	-	-	110,144
Instructional staff	570,240	1,629	-	-	-	571,869
Maintenance and operations	-	-	-	-	52,973	52,973
Pupil transportation	42,835	-	-	-	-	42,835
Community services	13,913	-	-	-	-	13,913
Facilities acquisition	-	-	-	323,903	1,103,691	1,427,594
Food service operations	-	-	2,646,126	-	-	2,646,126
Debt service						
Principal retirement	-	-	-	-	485,000	485,000
Interest and fiscal charges	-	-	-	-	60,728	60,728
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	4,034,566	89,885	2,646,126	323,903	1,702,392	8,796,872
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	-	(10,163)	177,391	(62,503)	(1,608,637)	(1,503,912)
Transfer in (out)	-	-	-	-	2,100,000	2,100,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	-	(10,163)	177,391	(62,503)	491,363	596,088
Fund balances - beginning	-	58,532	1,072,072	723,255	1,981,779	3,835,638
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances - ending	\$ -	\$ 48,369	\$ 1,249,463	\$ 660,752	\$ 2,473,142	\$ 4,431,726
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

See the accompanying independent auditors' report.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GOVERNMENTAL-DESIGNATED PURPOSE GRANTS FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES			
Federal sources	\$ 4,847,907	\$ 4,034,566	\$ (813,341)
Total revenues	<u>4,847,907</u>	<u>4,034,566</u>	<u>(813,341)</u>
EXPENDITURES			
Instruction	3,962,174	3,297,434	664,740
Student support	132,348	110,144	22,204
Instructional staff	685,196	570,240	114,956
Pupil transportation	51,470	42,835	8,635
Community services	<u>16,718</u>	<u>13,913</u>	<u>2,805</u>
Total expenditures	<u>4,847,907</u>	<u>4,034,566</u>	<u>813,341</u>
Net change in fund balance	-	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying independent auditors' report.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUPIL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Local sources	\$ 175,000	\$ 79,722	\$ (95,278)
Total revenues	<u>175,000</u>	<u>79,722</u>	<u>(95,278)</u>
EXPENDITURES			
Instruction	171,828	88,256	83,572
Instructional staff	3,172	1,629	1,543
Contingency reserve	<u>58,532</u>	<u>-</u>	<u>58,532</u>
Total expenditures	<u>233,532</u>	<u>89,885</u>	<u>143,647</u>
Net change in fund balance	(58,532)	(10,163)	48,369
Fund balance - beginning	<u>58,532</u>	<u>58,532</u>	<u>-</u>
Fund balance - ending	<u><u>\$ -</u></u>	<u><u>\$ 48,369</u></u>	<u><u>\$ 48,369</u></u>

See the accompanying independent auditors' report.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Intergovernmental	\$ 1,974,000	\$ 2,047,463	\$ 73,463
Fees for services	750,000	698,813	(51,187)
Interest	-	14,043	14,043
Other sources	290,000	63,198	(226,802)
	<u>3,014,000</u>	<u>2,823,517</u>	<u>(190,483)</u>
Expenditures			
Food Purchases	1,429,611	1,103,214	326,397
Salaries	948,937	835,051	113,886
Employee benefits	346,705	304,704	42,001
Commodity Items	215,000	187,294	27,706
Administrative and management fees	86,900	46,499	40,401
Purchased services	5,194	4,008	1,186
Supplies and other charges	111,945	86,387	25,558
Equipment and repairs	124,000	78,969	45,031
Depreciation	8,000	-	8,000
Appropriated reserve	809,780	-	809,780
	<u>4,086,072</u>	<u>2,646,126</u>	<u>1,439,946</u>
Net change in fund balances	(1,072,072)	177,391	1,249,463
Fund balances - beginning	<u>1,072,072</u>	<u>1,072,072</u>	<u>-</u>
Fund balances - beginning	<u>\$ -</u>	<u>\$ 1,249,463</u>	<u>\$ 1,249,463</u>

See the accompanying independent auditors' report.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CONSERVATION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Lottery funds	\$ 225,000	\$ 248,984	\$ 23,984
Interest	1,500	12,416	10,916
Total revenues	<u>226,500</u>	<u>261,400</u>	<u>34,900</u>
EXPENDITURES			
Facilities acquisition	425,000	323,903	101,097
Appropriated reserve	<u>524,755</u>	<u>-</u>	<u>524,755</u>
Total expenditures	<u>949,755</u>	<u>323,903</u>	<u>625,852</u>
Net change in fund balance	(723,255)	(62,503)	660,752
Fund balance - beginning	<u>723,255</u>	<u>723,255</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 660,752</u>	<u>\$ 660,752</u>

See the accompanying independent auditors' report.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest income	\$ 10,000	\$ 34,913	\$ 24,913
Other miscellaneous revenue	45,000	58,842	13,842
Total revenues	55,000	93,755	38,755
EXPENDITURES			
Maintenance and operations	90,000	52,973	37,027
Interest and other charges	60,728	60,728	-
Principal payments	485,000	485,000	-
Facilities acquisition and construction	1,519,272	1,103,691	415,581
Appropriated reserves	1,981,779	-	1,981,779
Total expenditures	4,136,779	1,702,392	2,434,387
Deficiency of revenues (under) expenditures	(4,081,779)	(1,608,637)	2,473,142
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	2,100,000	2,100,000	-
Total other financing sources and (uses)	2,100,000	2,100,000	-
Net change in fund balances	(1,981,779)	491,363	2,473,142
Fund balances - beginning	1,981,779	1,981,779	-
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,473,142</u>	<u>\$ 2,473,142</u>

See the accompanying independent auditors' report.

FIDUCIARY FUNDS

Trust and Agency funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, governments and/or other funds. The District has two agency funds as follows:

Non-Pupil Activity Agency Fund

This fund is used to account for resources received and held by the District for non-pupil activities. The following activities are accounted for in the Non-Pupil Agency Fund:

T-I Parent Conference Fund
Nick Venetucci Statue Fund

Pupil Activity Agency Fund

This fund is used to account for resources received and held by the District for pupil activities.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Non-Pupil Activity Agency Fund				
ASSETS				
Cash and cash equivalents	\$ 19,385	\$ 43,940	\$ 42,142	\$ 21,183
Receivable from primary government	68,137	3,137	-	71,274
Total assets	<u>\$ 87,522</u>	<u>\$ 47,077</u>	<u>\$ 42,142</u>	<u>\$ 92,457</u>
LIABILITIES				
Payable to other organizations	\$ 87,522	\$ 47,077	\$ 42,142	\$ 92,457
Total liabilities	<u>\$ 87,522</u>	<u>\$ 47,077</u>	<u>\$ 42,142</u>	<u>\$ 92,457</u>
Pupil Activity Agency Fund				
ASSETS				
Cash and cash equivalents	\$ 1,280,760	\$ 1,710,925	\$ 1,592,934	\$ 1,398,751
Prepaid expenses	1,000	-	-	1,000
Receivable from charter school	2,352	-	237	2,115
Receivable from (payable to) primary government	(57,751)	(23,567)	-	(81,318)
Total assets	<u>\$ 1,226,361</u>	<u>\$ 1,687,358</u>	<u>\$ 1,593,171</u>	<u>\$ 1,320,548</u>
LIABILITIES				
Accounts payable	\$ 6,038	\$ 5,803	\$ 6,038	\$ 5,803
Due to student organizations	1,220,323	1,681,555	1,587,133	1,314,745
Total Liabilities	<u>\$ 1,226,361</u>	<u>\$ 1,687,358</u>	<u>\$ 1,593,171</u>	<u>\$ 1,320,548</u>

See the accompanying independent auditors' report.

SINGLE AUDIT SECTION

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
<i>Child Nutrition Cluster</i>				
Passed Through Colorado Department of Education				
School Breakfast Program	10.553	4553	\$ -	\$ 367,780
National School Lunch Program	10.555	4555		1,492,389
Passed Through Colorado Department of Human Services				
National School Lunch Program	10.555	4555		187,294
<i>Total Child Nutrition Cluster</i>				<u>2,047,463</u>
Total U.S. Department of Agriculture				<u>2,047,463</u>
U.S. Department of Defense				
Direct Programs				
Promoting K-12 Student Achievement at Military-Connected Schools	12.556			107,482
Invitational Grants for Military-Connected Schools	12.557			221,625
Department of Defense Impact Aid	12.558			120,838
Reserve Officer Training Corps (ROTC)	12.Unknown			127,655
Total U.S. Department of Defense				<u>577,600</u>
U.S. Department of Education				
Direct Programs				
Impact Aid	84.041		13,433	645,431
				<u>645,431</u>
Passed Through Colorado Department of Education				
<i>Special Education Cluster</i>				
Special Education: Grants to States IDEA Part B	84.027	4027		1,765,078
Special Education: Preschool Grants	84.173	4173		72,338
<i>Total Special Education Cluster</i>				<u>1,837,416</u>
Title I Grants to Local Educational Agencies	84.010	4010, 5010		1,523,661
Special Education - State Personnel Development	84.323	5323		502
English Language Acquisition Grants	84.365	4365		10,552
Improving Teacher Quality State Grants	84.367	4367		237,658
Race to the Top - Early Childhood Readiness Assessment	84.412	5412		7,303
Student Support and Academic Enrichment Program	84.424	4424		25,833
Passed through Colorado Community College System				
Vocational Education - Carl Perkins	84.048	4048		62,534
Total U.S. Department of Education			<u>13,433</u>	<u>4,350,890</u>
Total Federal Awards			<u>\$ 13,433</u>	<u>\$ 6,975,953</u>

See the accompanying independent auditors' report.

EL PASO COUNTY SCHOOL DISTRICT NO. 3
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of El Paso County School District No. 3 under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of El Paso County School District No. 3, it is not intended to and does not present the financial position, changes in net assets, or cash flows of El Paso County School District No. 3.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available. ROTC does not have a CFDA number, so the Federal CFDA number on the Schedule of Expenditures of Federal Awards identifies the Department followed by "Unknown".

NOTE 3 – INDIRECT COST RATE

El Paso County School District No. 3 has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – NON-CASH ASSISTANCE

During the year end June 30, 2018, El Paso County School District No. 3 received \$187,294 in non-cash assistance in the form of food commodities.



INDEPENDENT AUDITORS' 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*

To the Board of Education
El Paso County School District No. 3

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of El Paso County School District No. 3, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise El Paso County School District No. 3's basic financial statements, and have issued our report thereon dated November 1, 2018. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Paso County School District No. 3'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 El Paso County School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of El Paso County School District No. 3'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Paso County School District No. 3'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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.

Hoelting & Company Inc.

Colorado Springs, Colorado
November 1, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
El Paso County School District No. 3

Report on Compliance for Each Major Federal Program

We have audited El Paso County School District No. 3'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 El Paso County School District No. 3's major federal programs for the year ended June 30, 2018. El Paso County School District No. 3'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of El Paso County School District No. 3'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; and 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 El Paso County School District No. 3'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 El Paso County School District No. 3's compliance.

Opinion on Each Major Federal Program

In our opinion, El Paso County School District No. 3, 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, 2018.

Report on Internal Control Over Compliance

Management of El Paso County School District No. 3 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 El Paso County School District No. 3'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 the 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 El Paso County School District No. 3'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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.

Hoelting & Company, Inc.

Colorado Springs, Colorado
November 1, 2018

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section II—Financial Statement Findings

No findings reported.

Section III—Findings and Questioned Costs for Federal Awards

No findings reported.

**EL PASO COUNTY SCHOOL DISTRICT NO. 3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

The Summary Schedule of Prior Audit Findings (the Summary) summarizes the status of the audit findings reported in the El Paso County School District No. 3 Schedule of Findings and Questioned Costs for the year ended June 30, 2017. If the prior audit finding was fully addressed, the Summary indicates that the corrective action described in the prior audit report was taken or that corrective action is no longer needed. Otherwise, the Summary references the page number of the June 30, 2018 single audit report where a repeat recommendation, description of the planned corrective action, or reason for not implementing the recommendation is presented.

There were no prior year audit findings.

CDE COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON COLORADO SCHOOL
DISTRICT/BOCES AUDITOR'S INTEGRITY REPORT**

To the Board of Education
El Paso County School District No. 3

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of El Paso County School District No. 3, as of and for the year ended June 30, 2018, which collectively comprise El Paso County School District No. 3's basic financial statements, and our report thereon dated November 1, 2018, which expressed an unmodified opinion on those financial statement, appears as listed in the table of contents.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the El Paso County School District No. 3's financial statements. The accompanying *Colorado School District/BOCES, Auditor's Integrity Report* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoelting & Company, Inc.

Colorado Springs, Colorado
November 1, 2018



Colorado Department of Education
Auditors Integrity Report
 District: 0990 - WIDFIELD 3
 Fiscal Year 2017-18
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	17,411,844	76,462,715	72,047,271	21,827,288
18 Risk Mgmt Sub-Fund of General Fund	467,514	1,173,062	1,617,960	22,615
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	17,879,358	77,635,778	73,665,231	21,849,904
11 Charter School Fund	136,627	1,160,705	1,181,503	115,829
20,26-29 Special Revenue Fund	4,859,488	2,875,442	2,369,225	5,365,705
21 Food Service Spec Revenue Fund	1,072,072	2,823,517	2,646,126	1,249,463
22 Govt Designated-Purpose Grants Fund	0	4,034,566	4,034,566	0
23 Pupil Activity Special Revenue Fund	58,532	79,723	89,886	48,369
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	4,848,861	4,797,231	2,637,675	7,008,417
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	57,325,261	8,083,068	49,242,193
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,981,779	2,193,754	1,702,392	2,473,142
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	30,836,716	152,925,977	96,409,671	87,353,022
Proprietary				
50 Other Enterprise Funds	-343,285	2,309	24,930	-365,906
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	-343,285	2,309	24,930	-365,906
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	87,522	47,077	42,142	92,457
74 Pupil Activity Agency Fund	1,220,323	1,681,555	1,587,133	1,314,745
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	1,307,845	1,728,632	1,629,275	1,407,202

FINAL

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