

**Gunnison Watershed School District RE-1J**

**Financial Report**

**June 30, 2018**



**Gunnison Watershed School District RE-1J  
Financial Report  
June 30, 2018**

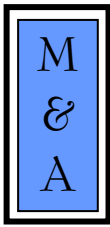
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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Education  
Gunnison Watershed School District RE-J1**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of Gunnison Watershed School District RE-J1 (the "District"), 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 includes 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 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 financial statement presentation.

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

*Member: American Institute of Certified Public Accountants*

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**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 aggregate discretely presented component units, and each major fund of Gunnison Watershed School District RE-1J as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

**Emphasis of Matter**

As discussed in Note IV.I. to the financial statements, in the year ended June 30, 2018, the District adopted Governmental Accounting Standards Board Statement No.75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

**Other Matters**

U.S. generally accepted accounting principles require that Management's Discussion and Analysis in Section B, and the Schedule of Employer's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions in Section E, 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 U.S. generally accepted auditing standards, 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.

The budgetary comparison information in section E is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The budgetary comparison 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 statement or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements taken as a whole. The individual fund budgetary information in section F and the Colorado Department of Education Auditor's Electronic Data Integrity Check Figures are presented for purposes of additional analysis and are not a required part of the District's financial statements. The individual fund budgetary 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. Such 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Matters**

Additionally, the Schedule of Expenditures of Federal Awards included in the Single Audit section is presented for the purpose 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* (“*Uniform Guidance*”), and is not a required part of the District’s financial statements. Such information has been subjected to the auditing procedures applied to 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 statement or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with 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 the 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 the District’s internal control over financial reporting and compliance.

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.  
December 4, 2018**

Gunnison Watershed School District RE-1J

Management's Discussion and Analysis



## Gunnison Watershed School District RE-1J

### Management Discussion and Analysis

As management of Gunnison Watershed School District RE-1J, 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 the District's financial statements, which follow this section.

#### Financial Highlights

- The liabilities of the District exceeded its assets as of June 30, 2018, by \$31,949,556 (net position). This is primarily due to an increase in the District's PERA Net Pension Liability of \$4,439,027 and Net OPEB Liability of \$1,752,188.
- The District's net position decreased by \$10,214,257 from 2017, primarily due to the affect from changes in the District's Net Pension Liability and Net OPEB Liability.
- The District's General Fund had a fund balance of \$6,000,941, or 35% of total General Fund Expenditures.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The *statement of net position* presents information on all 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 the financial health of the District.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event effecting 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 only result in cash flows in future fiscal periods (e.g. uncollected taxes and changes in long-term compensated absences).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities).

- **Governmental activities:** Most of the District's basic services are included here, such as instructional services, support services, food services and student activities. Such services included activities relating to building maintenance, technology and administration.

The district-wide financial statements also include Marble Charter School, which is a discretely presented component unit of the District.

The district-wide financial statements can be found on pages C1 and C2 of this report.

## **Fund Financial Statements**

A fund is a grouping of self-balancing, related accounts that are used to maintain control over resources that have been segregated for specific purposes. Our District uses fund accounting to ensure and demonstrate compliance with financial and government fund and proprietary funds.

### **Government Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of 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. 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 the governmental fund and governmental activities.

The District's most significant, or "major" governmental funds include the General Fund, Bond Redemption Fund, Capital Reserve Capital Projects Fund, Food Services Fund, Pupil Activity Fund, and the 2014 Mill Levy Override Fund.

The District adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with state budget statutes.

The basic major governmental fund statements start on page C3.

### **Proprietary Funds**

Proprietary funds are used to report the same functions presented as business-type activities in the district-wide financial statements. The District uses an enterprise fund to account for its employee health and dental benefits. Internal service funds are an accounting device used to accumulate and allocate costs internally to the District's various functions. Because the service predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the district-wide financial statements, only in more detail. The proprietary fund financial statements provide financial reports for the District's health services fund which is considered to be a major fund of the District.

The basic Proprietary Fund financial statements can be found on pages C7 thru C9, of this report.

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

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

An annual review of net position may serve as a useful indicator of a government's financial position. The District's liabilities exceeded assets by \$31,949,556. In the previous year of 2017, the liabilities exceeded assets by \$19,954,540.

The assets of the District are classified as current assets, non-current assets, and capital assets. Current assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of the property tax receivables and cash and investments.

Capital assets are made up of land, buildings, equipment/vehicles, and construction in progress. Current and long-term liabilities are classified based upon anticipated liquidation, either in the near-term or in the future.

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## Statement of Net Position

The following table provides a summary of the District's net position as of the fiscal years ended June 30, 2018 and 2017.

### Gunnison Watershed School District RE-1J Net Position

	2018	2017
<b>Assets:</b>		
Current and other assets	\$ 20,218,019	\$ 16,792,116
Capital assets, net	60,291,315	61,730,797
<b>Total Assets</b>	<b>80,509,334</b>	<b>78,522,913</b>
<b>Deferred Outflows of Resources:</b>		
Deferred refunding costs	5,235,956	5,833,994
Pension related deferred outflow	22,444,129	28,434,308
Post-employment health benefits related deferred outflow	20,251	-
<b>Total deferred outflows of resources</b>	<b>27,700,336</b>	<b>34,268,302</b>
<b>Liabilities:</b>		
Other liabilities	2,573,003	2,434,597
Long-term liabilities	133,626,827	129,963,409
<b>Total Liabilities</b>	<b>136,199,830</b>	<b>132,398,006</b>
<b>Deferred Inflows of Resources:</b>		
Deferred revenue	21,613	20,604
Pension related deferred inflow	3,871,401	327,145
Post-employment health benefits related deferred inflow	66,382	-
<b>Total deferred inflows of resources</b>	<b>3,959,396</b>	<b>347,749</b>
<b>Net Position:</b>		
Net investment in capital assets	5,425,449	4,326,565
Restricted	4,520,809	4,211,928
Unrestricted	(41,895,814)	(28,493,033)
<b>Total Net Position</b>	<b>\$ (31,949,556)</b>	<b>\$ (19,954,540)</b>

Of the District's total assets, 75% are capital assets (e.g. land, buildings, and equipment). The District uses these assets to provide instruction and related services to its students.

Net position for governmental activities decreased by \$10,214,257. The following table summarizes the District's change in net position:

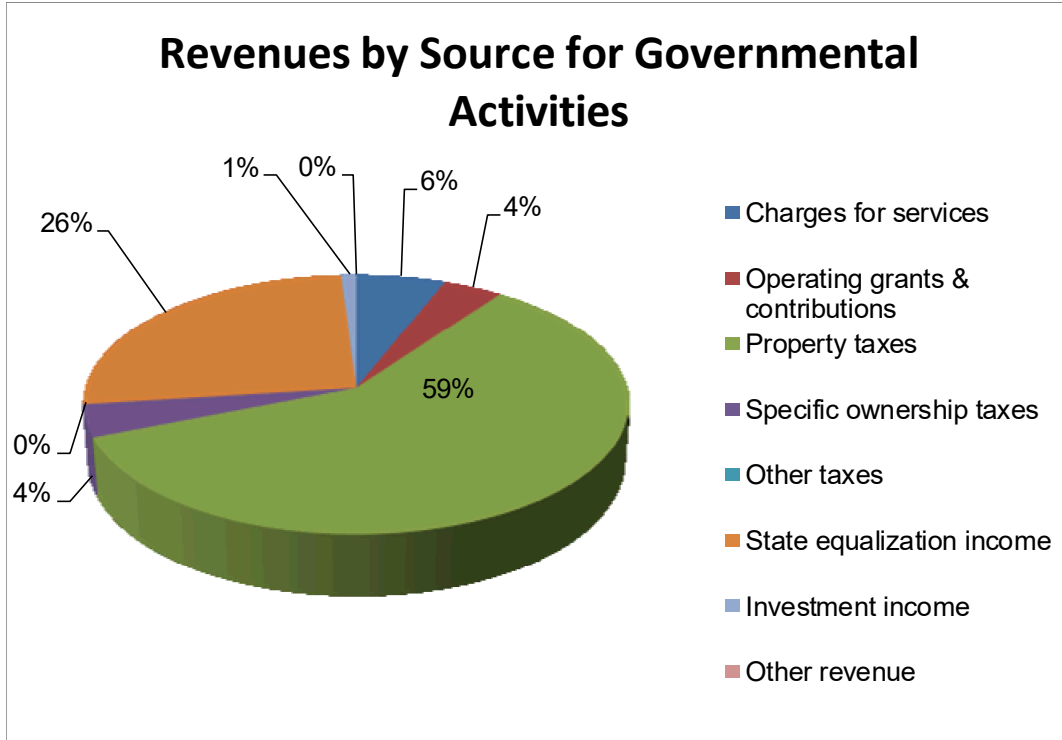
**Gunnison Watershed School District RE-1J Changes in Net Position**

	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 1,586,286	\$ 1,460,721
Operating grants & contributions	1,174,447	1,012,660
General revenues:		
Property taxes	16,576,927	15,635,743
Specific ownership taxes	1,137,364	1,011,346
Other taxes	38,408	-
State equalization income	7,520,836	6,918,238
Investment income	195,537	109,123
Other revenue	80,886	418,501
Gain (loss) on disposal of assets	145	-
<b>Total Revenues</b>	<u>28,310,836</u>	<u>26,566,332</u>
<b>Expenses:</b>		
Direct instruction	22,635,288	20,720,126
Indirect instruction	2,960,236	2,910,965
General administration	3,835,874	3,763,397
Support services	1,433,507	1,109,801
Custodial and maintenance	2,084,431	2,183,396
Transportation	1,365,564	1,339,257
Community Service	901	797
Student activities	1,069,636	1,051,172
Food services	802,925	790,647
Interest on long-term debt	2,336,731	2,417,636
<b>Total Expenses</b>	<u>38,525,093</u>	<u>36,287,194</u>
<b>Change in Net Position</b>	(10,214,257)	(9,720,862)
<b>Net Position - Beginning of Year, as previously stated</b>	(19,954,540)	(10,233,678)
Prior period adjustment	(1,780,759)	-
<b>Net Position - Beginning of Year, as restated</b>	<u>(21,735,299)</u>	<u>(10,233,678)</u>
<b>Net Position - End of Year</b>	<u>\$ (31,949,556)</u>	<u>\$ (19,954,540)</u>

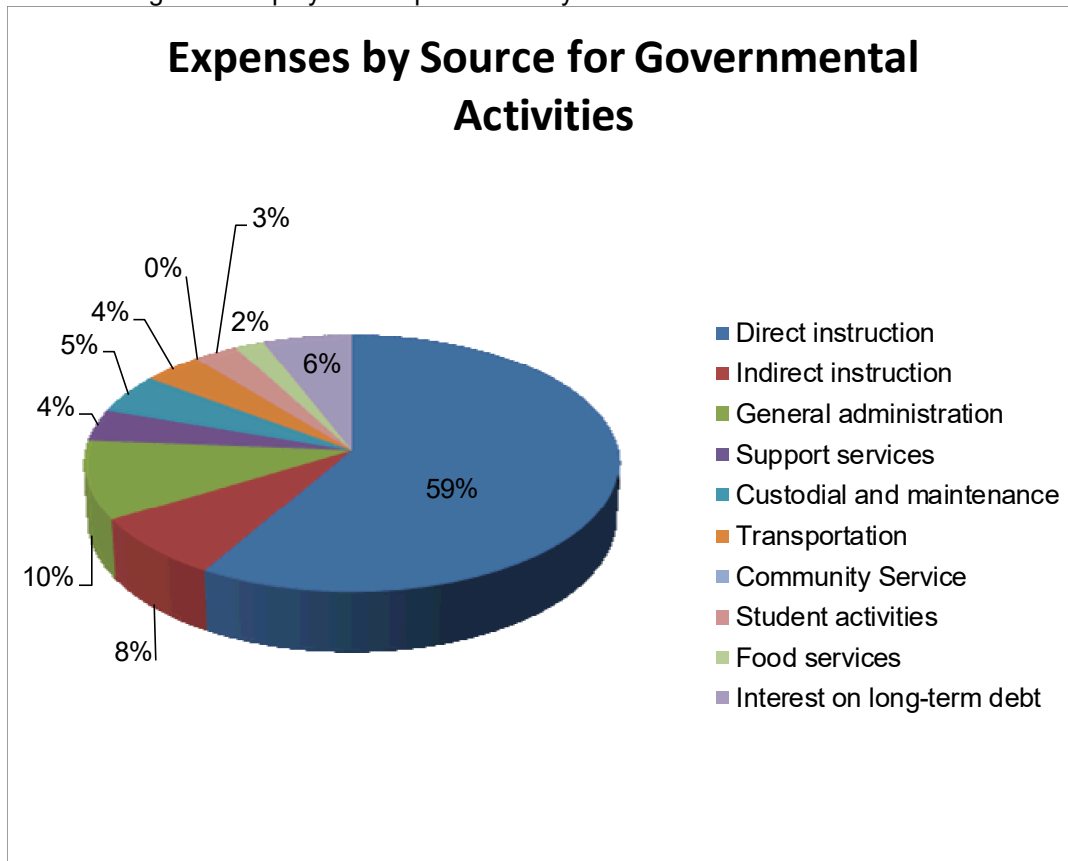
Property taxes, specific ownership tax, and per pupil state formula revenue (School Finance Act-State Equalization) account for most of the District's revenue. The remaining revenue comes from grants and contributions with the remainder from fees charged for services and miscellaneous sources.

The District's expenses predominantly relate to instruction and support services, which include support for students and instructional staff, administration, operations and maintenance, and transportation. Given that the District is a service organization providing education services to students, the majority of the expenses are paid in the form of compensation (salaries and benefits) to the District's employees. The changes in expenses relate primarily to amortization of increases in the District's Net Pension Liability.

The following chart displays the revenues by source for the total District:



The following chart displays the expenditures by source for the total District:



The District's expenditures are predominately related to instruction, with the general administrative and support services, transportation, operations and maintenance, and interest on bond payments accounting for the remaining expenditures.

**Financial Analysis of the District's Funds:** As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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, unassigned balances may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year. The District decreased their unassigned balance, or fund balance, at the end of this fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,671,068 which is an increase of \$2,733,571 from the prior year ending fund balances.

**General Fund Budgetary Highlights:** The District's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General Fund. The original budget is prepared based on a conservative estimate of student growth. This guarantees the District does not overstaff or overextend its financial capabilities. The General Fund's actual results were under budgeted appropriations by \$744,046.

**Capital Assets and Debt Administration:** The District's investment in capital assets for governmental activities as of June 30, 2018, amounts to \$60,291,315 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and vehicles.

**Long Term Debt:** As of June 30, 2018, the District had outstanding debt of \$54,865,866.

**Economic Factors and Next Year's Budget:** The Public School Finance Act of 1994 is the largest source of revenue for the District's operating funds. The School Finance Act calculates per-pupil funding by school District based upon a formula that takes into consideration the cost of living, number of students, District size, personnel vs. non-personnel, and number of at-risk students. The purpose of this act was to establish a financial base of support for public education, to move towards a uniform mill levy tax statewide for all Districts, and to limit future growth of and reliance upon property tax to support public education. Funding sources for the School Finance Act is derived by the following formula:

Total Program Funding = local property taxes + general specific ownership taxes + state equalization.

School District finance is also significantly affected by Amendment 23, which was approved by the voters in November 2000. This state constitutional amendment requires that statewide base per pupil funding and state categorical program funding increase by inflation plus one percent for ten years beginning with the fiscal year ended June 30, 2002. After that ten-year window has expired, the state must increase funding at the rate of inflation. This funding calculation attempts to align Colorado Districts to inflation adjusted funding levels of 1988. The formula will also increase the District's reliance upon the state and decrease the District's reliance upon funding over time.

**Next Year's Budget and Fund Balance:** The District's General Fund balance at the end of fiscal year 2018 is \$6,000,941. The subsequent year's budget for fiscal year 2019 is fiscally balanced.

**Request for Information:**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Business Office, Gunnison Watershed School District RE-1J, 800 North Boulevard, Gunnison, Colorado 81230.

Gunnison Watershed School District RE-1J

Basic Financial Statements



**Gunnison Watershed School District RE-1J**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Total Governmental Activities</u>	<u>Marble Charter School</u>
<b>ASSETS</b>		
Cash and investments	18,901,850	238,311
Accounts receivable, net:		
Taxes	991,087	-
Other	319,162	-
Inventory	5,920	-
Total current assets	<u>20,218,019</u>	<u>238,311</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred refunding costs	5,235,956	-
Pension related deferred outflow	22,444,129	1,127,359
Post-employment health benefits related deferred outflow	20,251	14,682
Total deferred outflows of resources	<u>27,700,336</u>	<u>1,142,041</u>
Capital assets:		
Land	2,866,151	-
Buildings and improvements	76,191,175	1,921,496
Equipment	1,878,118	-
Vehicles	2,470,281	-
Less: Accumulated depreciation	<u>(23,114,410)</u>	<u>(605,817)</u>
Net capital assets	<u>60,291,315</u>	<u>1,315,679</u>
Total assets	<u><u>108,209,670</u></u>	<u><u>2,696,031</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	474,254	760
Accrued salaries	1,930,663	58,856
Accrued interest	168,086	-
Total current liabilities	<u>2,573,003</u>	<u>59,616</u>
Noncurrent liabilities:		
Accrued compensated absences	165,335	-
Bonded debt and capital leases:		
Due within one year	2,250,000	-
Due in more than one year	52,615,866	-
Other liabilities - due in more than one year		
Net pension liability	76,843,438	2,880,995
Post-employment health benefits (OPEB)	1,752,188	65,693
Total noncurrent liabilities	<u>133,626,827</u>	<u>2,946,688</u>
Total liabilities	<u>136,199,830</u>	<u>3,006,304</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred revenue	21,613	-
Pension related deferred inflow	3,871,401	134,521
Post-employment health benefits related deferred inflow	66,382	1,208
Total deferred inflows of resources	<u>3,959,396</u>	<u>135,729</u>
<b>NET POSITION</b>		
Net investment in capital assets	5,425,449	1,315,679
Restricted for:		
TABOR	662,560	19,000
Debt service	3,858,249	-
Unrestricted	<u>(41,895,814)</u>	<u>(1,780,681)</u>
Total net position	<u><u>(31,949,556)</u></u>	<u><u>(446,002)</u></u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Total Governmental Activities	Marble Charter School
<b>GOVERNMENTAL ACTIVITIES:</b>						
Direct instruction	22,635,288	127,231	943,807	-	(21,564,250)	
Indirect instruction	2,960,236	-	-	-	(2,960,236)	
General administration	3,835,874	-	-	-	(3,835,874)	
Support services	1,433,507	-	-	-	(1,433,507)	
Custodial and maintenance	2,084,431	-	-	-	(2,084,431)	
Transportation	1,365,564	-	-	-	(1,365,564)	
Community service	901	-	-	-	(901)	
Student activities	1,069,636	1,147,940	-	-	78,304	
Food Services	802,925	311,115	230,640	-	(261,170)	
Interest on long-term debt	2,336,731	-	-	-	(2,336,731)	
Total governmental activities	<u>38,525,093</u>	<u>1,586,286</u>	<u>1,174,447</u>	<u>-</u>	<u>(35,764,360)</u>	
Total Primary Government	<u>38,525,093</u>	<u>1,586,286</u>	<u>1,174,447</u>	<u>-</u>	<u>(35,764,360)</u>	
<b>COMPONENT UNIT:</b>						
Marble Charter School	<u>1,285,120</u>	<u>163,994</u>	<u>-</u>	<u>-</u>		<u>(1,121,126)</u>
<b>GENERAL REVENUES:</b>						
Taxes:						
Property taxes - Levied for general operations					11,953,727	472,393
Property taxes - Levied for debt service					4,623,200	-
Specific ownership taxes					1,137,364	-
Other taxes					38,408	-
State equalization income					7,520,836	-
Grants and contributions not restricted to specific programs					82,886	-
Investment income					195,537	-
Gain (loss) on disposal of assets					145	-
Special item					(2,000)	-
Total general revenues and transfers					<u>25,550,103</u>	<u>472,393</u>
Change in net position					(10,214,257)	(648,733)
Net position, beginning, as previously stated					(19,954,540)	251,195
Prior period adjustment					(1,780,759)	(48,464)
Net position, beginning of year, as restated					<u>(21,735,299)</u>	<u>202,731</u>
Net position, ending					<u>(31,949,556)</u>	<u>(446,002)</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	<u>General Fund</u>	<u>Bond Redemption Fund</u>	<u>Capital Reserve Capital Projects Fund</u>	<u>Food Services Fund</u>	<u>Pupil Activity Fund</u>	<u>2014 Mill Levy Override Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Cash and investments	7,149,531	3,637,882	2,742,498	119,019	584,068	2,443,465	16,676,463
Accounts receivable, net:							
Taxes	464,268	217,023	-	-	-	117,052	798,343
Other	288,461	-	-	18,059	874	-	307,394
Due from other funds	4,097	3,344	-	-	-	-	7,441
Inventories	-	-	-	5,920	-	-	5,920
Total assets	<u>7,906,357</u>	<u>3,858,249</u>	<u>2,742,498</u>	<u>142,998</u>	<u>584,942</u>	<u>2,560,517</u>	<u>17,795,561</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and accrued expenses	134,884	-	-	1,399	23,021	11,367	170,671
Accrued salaries	1,767,188	-	-	29,222	-	128,358	1,924,768
Due to other funds	3,344	-	-	-	1,992	2,105	7,441
Total liabilities	<u>1,905,416</u>	<u>-</u>	<u>-</u>	<u>30,621</u>	<u>25,013</u>	<u>141,830</u>	<u>2,102,880</u>
Deferred Inflow of Resources:							
Deferred revenues	-	-	-	21,613	-	-	21,613
Total deferred inflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,613</u>	<u>-</u>	<u>-</u>	<u>21,613</u>
Fund balances:							
Non-spendable:							
Inventories	-	-	-	5,920	-	-	5,920
Restricted:							
TABOR	662,560	-	-	-	-	-	662,560
Debt service	-	3,858,249	-	-	-	-	3,858,249
Committed							
Future year expenditures	2,650,240	-	-	-	-	-	2,650,240
Food service	-	-	-	84,844	-	-	84,844
Educational purposes	-	-	-	-	-	2,418,687	2,418,687
Student activities	-	-	-	-	559,929	-	559,929
Assigned	-	-	2,742,498	-	-	-	2,742,498
Unassigned	2,688,141	-	-	-	-	-	2,688,141
Total fund balances	<u>6,000,941</u>	<u>3,858,249</u>	<u>2,742,498</u>	<u>90,764</u>	<u>559,929</u>	<u>2,418,687</u>	<u>15,671,068</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>7,906,357</u>	<u>3,858,249</u>	<u>2,742,498</u>	<u>142,998</u>	<u>584,942</u>	<u>2,560,517</u>	<u>17,795,561</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2018**

Governmental Funds Total Fund Balance		15,671,068
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*Add:*

Property taxes receivable will be collected this calendar year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.		192,744
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Capital assets used in governmental activities are not considered current financial resources and therefore, are not reported in the governmental funds:

	Capital assets	83,405,725	
	Accumulated depreciation	<u>(23,114,410)</u>	60,291,315

An internal service fund is used by the District's management to charge the cost of employee health and dental insurance to the individual funds:

	Assets	2,237,154	
	Liabilities	<u>(309,474)</u>	1,927,680

*Less:*

Deferred charges such as deferred refunding costs, premiums, and discounts on bonded debt, are treated as current transactions on the fund financial statements, but are capitalized and amortized on the Statement of Net Position:

	Deferred refunding costs	5,235,955	
	Premiums and discounts on bonded debt	<u>(5,200,866)</u>	35,089

Long-term liabilities, including bonds payable, net pension liability, arbitrage payable, accrued compensated absences, leases payable, and accrued interest are not due and payable in the current period and therefore, are not reported in the funds. This is the amount of District long-term liabilities:

	Net pension liability	(76,843,438)	
	Post-employment health benefits liability	(1,752,188)	
	Bonds payable	(49,665,000)	
	Accrued compensated absences	(165,335)	
	Accrued interest	<u>(168,086)</u>	(128,594,047)

Changes in pension related actuarial assumptions, proportion of collective pension amounts, differences between actual and expected experience and investment earnings, and differences between actual and annualized contributions to the pension plan are recorded as deferred inflows or outflows of resources and amortized over the average remaining service life of all active and inactive plan members.

	Unamortized post-employment health benefits related deferred outflows	20,251	
	Unamortized post-employment health benefits related deferred inflows	(66,382)	
	Unamortized pension related deferred outflows	22,444,128	
	Unamortized pension related deferred inflows	<u>(3,871,402)</u>	<u>18,526,595</u>

Governmental Activities Net Position		<u><u>(31,949,556)</u></u>
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The accompanying notes are an integral part of these statements.

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	General Fund	Bond Redemption Fund	Capital Reserve Capital Projects Fund	Food Services Fund	Pupil Activity Fund	2014 Mill Levy Override fund	Total Governmental Funds
<b>REVENUES</b>							
Taxes:							
Property taxes	9,342,217	4,572,941	-	-	-	2,472,913	16,388,071
Specific ownership taxes	1,137,364	-	-	-	-	-	1,137,364
Other taxes	38,408	-	-	-	-	-	38,408
Federal income	1,008,420	-	-	224,112	-	-	1,232,532
State income	7,530,156	-	-	6,829	-	-	7,536,985
Investment income	139,084	13,469	5,284	-	-	37,699	195,536
Other	136,183	-	-	-	-	-	136,183
Charges for services	-	-	-	-	1,147,940	-	1,147,940
Food sales	-	-	-	310,814	-	-	310,814
Total revenues	<u>19,331,832</u>	<u>4,586,410</u>	<u>5,284</u>	<u>541,755</u>	<u>1,147,940</u>	<u>2,510,612</u>	<u>28,123,833</u>
<b>EXPENDITURES</b>							
Direct instruction	10,931,216	-	-	-	-	1,556,202	12,487,418
Indirect instruction	1,530,911	-	-	-	-	-	1,530,911
General administration	1,691,709	-	-	-	-	-	1,691,709
Support services	761,786	-	-	-	-	-	761,786
Custodial and maintenance	1,568,361	-	-	-	-	-	1,568,361
Transportation	669,200	-	-	-	-	-	669,200
Community service	859	-	-	-	-	-	859
Student activities	-	-	-	-	1,069,636	-	1,069,636
Capital outlay	167,406	-	38,078	-	3,648	320,147	529,279
Food service operations	-	-	-	794,460	-	-	794,460
Debt service:							
Principal	-	2,175,000	-	-	-	-	2,175,000
Interest and fiscal charges	-	2,111,788	-	-	-	-	2,111,788
Total expenditures	<u>17,321,448</u>	<u>4,286,788</u>	<u>38,078</u>	<u>794,460</u>	<u>1,073,284</u>	<u>1,876,349</u>	<u>25,390,407</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,010,384</u>	<u>299,622</u>	<u>(32,794)</u>	<u>(252,705)</u>	<u>74,656</u>	<u>634,263</u>	<u>2,733,426</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Sale of fixed assets	145	-	-	-	-	-	145
Transfers in (out)	(791,587)	-	538,882	252,705	-	-	-
Total other financing sources (uses)	<u>(791,442)</u>	<u>-</u>	<u>538,882</u>	<u>252,705</u>	<u>-</u>	<u>-</u>	<u>145</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,218,942	299,622	506,088	-	74,656	634,263	2,733,571
<b>FUND BALANCES, BEGINNING</b>	<u>4,781,999</u>	<u>3,558,627</u>	<u>2,236,410</u>	<u>90,764</u>	<u>485,273</u>	<u>1,784,424</u>	<u>12,937,497</u>
<b>FUND BALANCES, ENDING</b>	<u><u>6,000,941</u></u>	<u><u>3,858,249</u></u>	<u><u>2,742,498</u></u>	<u><u>90,764</u></u>	<u><u>559,929</u></u>	<u><u>2,418,687</u></u>	<u><u>15,671,068</u></u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Reconciliation of Revenues, Expenditures and Change in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2018**

Governmental Funds Change in Fund Balances	2,733,571
<i>Add:</i>	
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 of capital outlays reported as expenditures in the governmental funds.	263,953
Debt principal payments result in a reduction of accumulated resources on the fund financial statements. The government-wide statements show these payments as reductions against long-term liabilities.	2,175,000
An internal service fund is used by the District's management to charge the cost of employee health and dental insurance to the individual funds. The net revenue of these funds is reported with the governmental activities in the Statement of Activities.	356,332
Amortization of deferred costs such as premium and discounts on bonds payable and deferred charges from refunding and changes in accrued interest have no impact on current available resources but do change government-wide net position.	(226,943)
<i>Less:</i>	
Deferred property tax revenues do not provide current financial resources and are deferred on the governmental fund financial statements but recognized on the government-wide financial statements. This is the change in the deferred property tax recognized in the Statement of Activities.	188,856
Accrued compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the change in accrued compensated absences during the year.	(10,568)
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 of depreciation expense reported as an expenditure in the governmental activities' functions.	(1,703,435)
The difference between employer contributions to the pension plan and the change in pension liability and amortization of pension related deferrals do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(13,973,463)
Changes in the District's net post-employment health benefits obligation reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the change in District's net post-employment health benefits obligation during the year, including differences between District contributions to the plan and amortization of post-employment health benefits related deferrals.	(17,560)
Governmental Activities Change in Net Position	<u>(10,214,257)</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2018**

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and investments	2,225,387
Accounts receivable, net:	
Other	11,767
Total current assets	2,237,154
<b>LIABILITIES</b>	
Current liabilities:	
Other current liabilities	309,474
Total current liabilities	309,474
<b>NET POSITION</b>	
Unrestricted	1,927,680
Total net position	1,927,680

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Insurance premiums	2,442,290
Stop loss reimbursement	10,602
Total operating revenues	2,452,892
<b>OPERATING EXPENSES</b>	
Claims losses	1,602,800
Stop loss premiums and fees	493,760
Total operating expenses	2,096,560
<b>CHANGE IN NET POSITION</b>	356,332
<b>TOTAL NET POSITION, BEGINNING</b>	1,571,348
<b>TOTAL NET POSITION, ENDING</b>	1,927,680

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from charges for services	2,468,115
Other cash receipts	10,602
Payments to vendors	(2,115,745)
Net cash provided (used) by operating activities	362,972
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers received	77,253
Net cash provided (used) by noncapital financing activities	77,253
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	440,225
Cash and Cash Equivalents, Beginning	1,785,162
Cash and Cash Equivalents, Ending	2,225,387
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	356,332
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities related to operations:	
(Increase) decrease in accounts receivable	25,825
(Increase) decrease in due to (from) other funds	(77,253)
Increase (decrease) in accounts payable	(19,185)
Increase (decrease) in due to other funds	77,253
Total adjustments	6,640
<b>Net cash provided (used) by operating activities</b>	<b>362,972</b>

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

Gunnison Watershed School District RE-1J

Notes to the Financial Statements



**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**

**I. Summary of Significant Accounting Policies**

Gunnison Watershed School District RE-1J (the "District") includes portions of both Gunnison and Saguache Counties. The District provides academic and vocational curriculum, student transportation, food services, athletic and cultural extracurricular activities, maintenance and general administrative services. The District operates the following schools:

<b>Elementary Schools</b> Gunnison Elementary Crested Butte Elementary	<b>Middle Schools</b> Gunnison Middle School	<b>High School</b> Gunnison High School
<b>Preschool &amp; Kindergarten</b> Lake School	<b>Community School</b> Crested Butte Secondary School	<b>Charter School</b> Marble Charter School

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

**A. Reporting Entity**

The District operates under an elected District Board of Education comprised of five members. As required by GAAP, the financial statements of the reporting entity include those of the District and its component units, entities for which the District is considered financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint the voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based upon the above criteria, the District has identified one discretely presented component unit.

The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding sources. However, the District is not included in any other governmental reporting entity.

**Discretely Presented Component Units – Marble Charter School**

The State of Colorado Legislature in 1993 enacted the "Charter School Act – Colorado Revised Statutes (CRS) Section 22-30-101." This Act permits the District to contract with individuals and organizations for the operation of schools within the District. The statutes define these contracted schools as "Charter Schools." Charter Schools are financed from a portion of the District's School Finance Act Revenues and from revenues generated by the Charter Schools, within the limits established by the Charter School Act. Charter Schools have separate governing boards; however, the District must approve all Charter School applications and budgets. Therefore, the Marble Charter School is included in the District's reporting entity because of the nature and significance of their operational or financial relationships with the District.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**A. Reporting Entity (continued)**

Complete financial statements can be obtained by contacting Marble Charter School, 418 West Main Street, Marble, Colorado 81623.

In 1995, the District approved a charter application through a resolution, allowing for the creation of the Marble Charter School ("Marble"). Marble is located in Marble, Colorado and provides educational services for grades kindergarten through seventh. Marble received an allocation of \$472,393 from the District for operations in the fiscal year ended June 30, 2018.

**B. District-wide and Fund Financial Statements**

The District's basic financial statements include both District-wide (financial activities of the overall District, except for fiduciary activities) and fund financial statements (reporting the District's major and non-major funds). The District-wide financial statements categorize primary activities as either governmental or business-type. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

**1. District-wide Financial Statements**

In the District-wide Statement of Net Position, the governmental columns are (a) presented on a consolidated basis by column, and (b) reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The District-wide Statement of Activities reports both the gross and net cost of the District's functions and business-type activities (i.e., food service). The governmental functions are also supported by general government revenues (property taxes, specific ownership taxes, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function) are normally covered by general revenues. As a general rule, the effect of interfund activity has been removed from these statements.

The District-wide focus is on the sustainability of the District as an entity and the change in the District's Net Position resulting from the current year's activities.

**2. Fund Financial Statements**

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**B. District-wide and Fund Financial Statements (continued)**

**2. Fund Financial Statements (continued)**

The District reports the following major governmental funds:

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

**Debt Service Fund** – The *Debt Service Fund (Bond Redemption Fund)* accounts for transactions related to the District’s general obligation bonds and interest.

**Capital Project Fund** – The *Capital Reserve Capital Projects Fund* accounts for transactions related to the District’s acquisitions and construction of capital facilities and other capital assets.

**Special Revenue Funds** – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The District reports the following major special revenue funds:

The *Food Services Fund* accounts for the activities of the District’s school breakfast and lunch programs.

The *Pupil Activity Fund* accounts for student clubs and other organizations.

The *2014 Mill Levy Override Fund* accounts for transactions related to future curriculum purchases and capital investments.

The District reports the following internal service fund:

The *Self Insurance Fund (Health Services Fund)* accounts for the employee’s health and dental benefits provided to other departments or funds of the District on a cost reimbursement basis.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

**1. Long-term Economic Focus and Accrual Basis**

Both the governmental and proprietary funds in the district-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**2. Current Financial Focus and Modified Accrual Basis**

The District's governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, net pension liability, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

**3. Financial Statement Presentation**

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

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

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts**

**1. Cash and Cash Equivalents**

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with original maturities of three months or less.

**2. Investments**

Investments are stated at fair value. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The District's investment policy permits investments in the following type of obligations which corresponds with state statutes:

- U.S. Treasury Obligations (maximum maturity of 60 months)
- Federal Instrumentality Securities (maximum maturity of 60 months)
- FDIC-insured Certificates of Deposit (maximum maturity of 18 months)
- Corporate Bonds (maximum maturity of 36 months)
- Prime Commercial Paper (maximum maturity of 9 months)
- Eligible Bankers Acceptances
- Repurchase Agreements
- General Obligations and Revenue Obligations
- Local Government Investment Pools
- Money Market Mutual Funds

**3. Receivables**

Receivables are reported net of an allowance for uncollectible accounts.

**4. Property Taxes**

Property taxes are assessed in one year as a lien on the property, but not collected by the governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable. Property tax receivables that are considered to be available (i.e. sixty days after year-end) are reported on the governmental fund financial statements. Property tax receivables that are not considered available (i.e. long term) are reported on the government wide Statement of Net Position.

**5. Inventory**

Inventories recorded in the *Food Services Fund* consist of purchased and donated commodities. Purchased inventories are valued at cost, while donated inventories, received at no cost under a program supported by the Federal Government, are recorded at their estimated fair value at the date of receipt using the first-in, first-out method.

**6. Interfund Receivables and Payables**

Balances at year-end between funds are reported as "due from / due to other funds" in the fund financial statements. Any residual balances not eliminated between the governmental and business-type activities are reported as "internal balances" in the district-wide financial statements.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts (continued)**

**7. Capital Assets**

Capital assets, which include land, land improvements, construction in progress, buildings and improvements, equipment, and vehicles, are reported in the proprietary fund financial statements and the applicable governmental columns in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost where historical records are available and at an estimated historical cost where no historical record exists. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital outlay for projects is capitalized as projects are constructed. The District does not capitalize interest on the construction of capital assets.

Buildings and improvements, equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Furniture and fixtures	20
Equipment	7
Kitchen equipment	20
Vehicles	10

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts (continued)**

**8. Pensions**

The District participates in the District 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.

**9. Defined Benefit Other Post Employment Benefit (OPEB) Plan**

The District participates in the Health Care Trust Fund (the "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.

**10. Deferred Outflows and Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has three items that qualify for reporting under this category on the Statement of Net Position. One item is deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Other items are the collective deferred outflows of resources related to the District's net pension obligation and other post-employment benefit obligations ("OPEB"). Pension and OPEB contributions made after the measurement date, and the net difference between projected and actual earnings will be recognized as a reduction of the net pension or OPEB liability in future periods.

Deferred inflows of resources represent an acquisition of net position that apply to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. Deferred revenue reported in the governmental balance sheet is deferred and recognized as an inflow of resources in the period that the amounts become available. Collective deferred inflows related to the District's net pension obligation and other post-employment benefits obligations are reported on the Statement of Net Position and are amortized over the average service lives of participants. See Note III (G) below for discussion on pension related deferred outflows and inflows.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts (continued)**

**11. Compensated Absences**

Annual leave begins accruing on the first day of employment and accrues at the rate of eleven (11) days per year for non-classified staff and one (1) day per month for classified staff. Any unused vacation leave is paid out upon termination.

Non-Classified District employees with seventy-five (75) days of accumulated annual leave may request reimbursement of up to six (6) days of unused annual leave each year at \$50 per day. Retiring Non-Classified District employees with twenty (20) or more years of employment with the District can apply to be paid for up to one-hundred (100) days of accumulated annual leave at \$50 per day.

Vacation Leave – Classified year-round District employees may accrue unused vacation leave at their current daily rate. In addition, District employees are paid for accumulated vacation at their current daily rate upon termination.

Vested or accumulated leave that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated leave that are not expected to be liquidated with expendable available financial resources are reported in the governmental activities column in the District-wide financial statements. Vested or accumulated leave of the proprietary fund type is recorded as an expense and a liability of that fund as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights.

**12. Long-term Obligations**

In the district-wide financial statements and proprietary fund types in the fund financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount and deferred refunding costs. Bond premiums, discounts, and deferred refunding costs are amortized over the life of the bonds based on interest payments.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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, are reported as debt service expenditures in the fund financial statements.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts (continued)**

**13. Fund Equity**

Governmental accounting standards establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications include Non-spendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint such as external versus internal compliance requirements.

Unassigned fund balance is a residual classification within the *General Fund*. The *General Fund* should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

**14. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**E. Significant Accounting Policies**

**1. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

**2. Credit Risk**

The receivables of the various funds of the District are primarily due from other governments. Management believes that the credit risk related to the receivables is minimal.

**3. Subsequent Events**

Management has evaluated subsequent events through December 4, 2018; the date that these financial statements were available to be issued.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**I. Summary of Significant Accounting Policies (continued)**

**E. Significant Accounting Policies (continued)**

**4. Fund Balance Policy**

The District has adopted minimum fund policy for the General Fund. The policy requires a minimum fund balance of at least 15% of the estimated General Fund expenditures.

**II. Stewardship, Compliance, and Accountability**

**A. Bond Trustee**

Colorado state statutes require all property taxes levied for the purpose of satisfying bonded indebtedness to be administered by at least one third party custodian designated by the District. The third party custodian is required to ensure all taxes levied to satisfy the obligations of bonded indebtedness are used accordingly. The District has entered into a custody agreement with Gunnison County, Colorado in order to meet this requirement.

**B. Budgetary Information**

Budgets are adopted on a basis consistent with GAAP. As required by Colorado Statutes, all funds have legally adopted budgets and appropriations. The total expenditures for each fund may not exceed the amount appropriated. Appropriations for a fund may be increased if unanticipated revenues offset them. All appropriations lapse at year-end.

As required by Colorado Statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for fiscal year 2018:

1. The proposed budget was submitted to the District Board of Education by May 31 of the year preceding the budget year. The proposed budget must include a description of major educational objectives and how the proposed budget fulfills those objectives.
2. Notice was published within ten (10) days which contained: availability of proposed budget for inspection, date and time of budget adoption meeting, and that any County taxpayer may file objections prior to the adoption of the budget.
3. The District Board of Education certified revenue requirements to the local County Commissioners prior to December 15.
4. The final budget was adopted prior to June 30 along with an appropriation resolution.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**II. Stewardship, Compliance, and Accountability (continued)**

**B. Budgetary Information (continued)**

During the year supplemental appropriation ordinances were approved for the following funds:

<u>Fund</u>	<u>Original Appropriation</u>	<u>Final Appropriation</u>	<u>Change</u>
General Fund	\$ 18,701,263	\$ 18,866,224	\$ 164,961
Food Service Fund	791,946	808,294	16,348
Pupil Activity Fund	964,041	1,174,294	210,253
2014 Mill Levy Override Fund	2,078,671	2,083,657	4,986
Capital Reserve Capital Projects Fund	100,000	426,287	326,287
Health Services Fund	2,144,450	2,175,450	31,000

**C. TABOR Amendment**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government. Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue.

TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending. The District has reserved \$662,560 of its June 30, 2018 fund balances for this purpose.

In 1997, the District's electorate approved the following ballot question: *"Without increasing any tax rates or imposing any new tax shall Gunnison Watershed School District RE-J1 be authorized to collect, keep and expend all District revenues received in fiscal year 1998 and each year thereafter without regard to any spending, revenue raising or other limitation in Article X, Section 20 of the Colorado Constitution or other laws of the state?"*

The District believes it is in compliance with the requirements of the TABOR Amendment. However, the Amendment is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds**

**A. Deposits and Investments**

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances for accounts over \$250,000 are collateralized as required by PDPA. The carrying amount of the District's demand deposits was \$18,940,336 at year end.

*Fair Value of Investments*

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At June 30, 2018, the District had the following recurring fair value measurements:

<u>Investments Measured at Net Asset Value</u>	<u>Total</u>
Colotrust	\$ 13,566,668

The District is governed by the deposit and investment limitations of state law. Unrealized gains / losses were \$0, which reflects the change in fair market value of investments. The deposits and investment balances at June 30, 2018, are as follows:

<u>Type:</u>	<u>Standard &amp; Poor's Rating</u>	<u>Balance</u>	<u>Maturities</u>	
			<u>Less Than One Year</u>	<u>One to Five Years</u>
<i>Deposits:</i>				
Petty Cash	Not rated	\$ 891	\$ 891	\$ -
Checking accounts	Not rated	5,310,468	5,310,468	-
Cash with fiscal agent	Not rated	23,823	23,823	-
<i>Investments:</i>				
Investment pool	AAAm	13,566,668	13,566,668	-
		<u>\$ 18,901,850</u>	<u>\$ 18,901,850</u>	<u>\$ -</u>

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**A. Deposits and Investments (continued)**

The investment pool represents investments in the Colorado Government Liquid Asset Trust (“COLOTRUST”) which is a 2a7-like pool. The fair value of the pool is determined by the pool’s share price. The District has no regulatory oversight for the pool.

*Interest Rate Risk.* The District limits investments maturities as required by state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. State statutes require the District to limit maturities to five years from the date of purchase. Maturities of investments held at June 30, 2018, are provided in the previous schedule. The District coordinates its investment maturities to closely match cash flow needs.

*Credit Risk.* State law specifies instruments in which local governments may invest including obligations of the United States, certain U.S. governmental agency securities, local government investment pools, and commercial paper among other items. The District’s general investment policy is to invest surplus funds in accordance with state law to ensure the preservation of capital, to ensure that adequate funds are available at all times to meet the financial obligations of the District when due, and to realize rates of return on invested funds which are comparable to market levels.

*Concentration of Credit Risk.* The District diversifies its investments by security type and institution. The District places no limit on the amount it may invest in any one issuer.

**B. Receivables**

Receivables as of year-end for the District’s major and non-major funds, including applicable allowances for uncollectible accounts are as follows:

	<b>General Fund</b>	<b>Bond Redemption Fund</b>	<b>Capital Reserve Capital Projects Fund</b>	<b>Food Services Fund</b>	<b>Pupil Activity Funds</b>	<b>2014 Mill Levy Override Fund</b>	<b>Total Governmental Funds</b>
Receivables:							
Taxes	\$ 464,268	\$ 217,023	\$ -	\$ -	\$ -	\$ 117,052	\$ 798,343
Accounts	-	-	-	-	874	-	874
Other	288,461	-	-	18,059	-	-	306,520
Gross receivables	752,729	217,023	-	18,059	874	117,052	1,105,737
Less: allowance for uncollectible	-	-	-	-	-	-	-
<b>Net Receivables</b>	<b>\$ 752,729</b>	<b>\$ 217,023</b>	<b>\$ -</b>	<b>\$ 18,059</b>	<b>\$ 874</b>	<b>\$ 117,052</b>	<b>\$ 1,105,737</b>

Governmental funds report property tax receivable for property taxes levied in fiscal year 2018 but not available until 2019.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**C. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,866,151	\$ -	\$ -	\$ 2,866,151
Total capital assets, not being depreciated	<u>2,866,151</u>	<u>-</u>	<u>-</u>	<u>2,866,151</u>
Capital assets, being depreciated:				
Buildings and improvements	76,157,352	33,823	-	76,191,175
Equipment	1,844,438	33,680	-	1,878,118
Vehicles	2,273,831	196,450	-	2,470,281
Total capital assets being depreciated	<u>80,275,621</u>	<u>263,953</u>	<u>-</u>	<u>80,539,574</u>
Total capital assets - Cost	<u>83,141,772</u>	<u>263,953</u>	<u>-</u>	<u>83,405,725</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,226,632)	(1,452,458)	-	(20,679,090)
Equipment	(711,193)	(108,483)	-	(819,676)
Vehicles	(1,473,150)	(142,494)	-	(1,615,644)
Total accumulated depreciation	<u>(21,410,975)</u>	<u>(1,703,435)</u>	<u>-</u>	<u>(23,114,410)</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 61,730,797</u>	<u>\$ (1,439,482)</u>	<u>\$ -</u>	<u>\$ 60,291,315</u>

The District had \$4,945,665 of fully depreciated capital assets still in service at June 30, 2018.

The District had the following capital outlay and depreciation expense for the following functions:

	<u>Capital Outlay</u>	<u>Depreciation Expense</u>
Governmental activities:		
General administration	\$ 33,823	\$ 1,452,458
Custodial and maintenance	33,680	81,188
Transportation	196,450	142,494
Food services	-	27,295
<b>Total - governmental activities</b>	<u>\$ 263,953</u>	<u>\$ 1,703,435</u>

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**D. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2018, was as follows:

	<b>Receivable Fund</b>	<b>Payable Fund</b>
General	\$ 4,097	\$ (3,344)
Debt Service	3,344	-
Pupil Activity	-	(1,992)
2014 Mill Levy Override	-	(2,105)
	\$ 7,441	\$ (7,441)

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers for fiscal year 2018 were as follows:

<b>Transfer In (Out)</b>	<b>Amount</b>	<b>Transfer Purpose</b>
General Fund	\$ (791,587)	To fund operations in other funds.
Food Services Fund	252,705	Funding from the General Fund.
Capital Reserve Capital Projects Fund	538,882	Funding from the General Fund.
Total	\$ -	

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**E. Long-term Debt – Governmental Activities**

**1. General Obligation Bonds, Series 2008**

On December 29, 2008, the District issued \$10,000,000 in General Obligation Bonds Series 2008, with a final maturity date of December 1, 2029, for the purpose of financing the costs of: improving, remodeling, repairing and making additions to District buildings; District-wide upgrades for security and life safety needs; and, to the extent funds are available after providing for the above purposes, for the purpose of equipping said facilities. Principal and interest are payable semi-annually on June 1 and December 1 at rates from 5% to 5.125%.

The bonds maturing on or before December 1, 2018, and after December 31, 2019, were refunded through the issuance of the General Obligation Refunding Bonds, Series 2014. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Statement of Net Position.

**2. General Obligation Bonds, Series 2009**

On January 20, 2009, the District issued \$45,000,000 in General Obligation Bonds Series 2009, with a final maturity date of December 1, 2033, for the purpose of financing the costs of: improving, remodeling, repairing and making additions to District buildings; District-wide upgrades for security and life safety needs; and, to the extent funds are available after providing for the above purposes, for the purpose of equipping said facilities.

Principal and interest are payable semi-annually on June 1 and December 1 at rates from 3.0% to 5.25%.

Bonds maturing on or before December 1, 2018, are not subject to redemption prior to maturity; Bonds maturing on and after December 31, 2019, are subject to optional redemption prior to maturity at the option of the District at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

The bonds maturing on or before December 1, 2018, and after December 31, 2019, were partially refunded through the issuance of the General Obligation Refunding Bonds, Series 2014. As a result, the partially refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the Statement of Net Position.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**E. Long-term Debt – Governmental Activities (continued)**

**2. General Obligation Bonds, Series 2009 (continued)**

The Series 2009 Bonds maturing on December 1, 2033 are subject to mandatory sinking fund redemption requirements as follows:

2030	\$	3,730,000
2031		3,930,000
2031		4,130,000
2033		4,350,000
	<u>\$</u>	<u>16,140,000</u>

**3. General Obligation Refunding Bonds, Series 2014**

On October 9, 2014, the District issued \$49,355,000 of its General Obligation Refunding Bonds, Series 2014. The proceeds of the bonds were used to refund the District's outstanding General Obligation Refunding Bonds, Series 2008, in the principal amount of \$10,000,000 and partially refund the District's outstanding General Obligation Refunding Bonds, Series 2009, in the principal amount of \$38,030,000. The 2008 bonds are considered to be defeased and have been removed from long-term debt. The partial refunded amount of the 2009 bonds is considered defeased and has been removed from the long-term debt.

Principal and interest are payable semi-annually on June 1 and December 1 at rates from 1% to 5%. The final maturity of the bonds is December 1, 2033.

Bonds maturing on or before December 1, 2024, are not subject to redemption prior to maturity. Bonds maturing on and after December 31, 2025, are subject to optional redemption prior to maturity at the option of the District at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

The reacquisition price exceeds net carrying amount of the old debt by \$7,667,420. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt.

**4. Defeasance of Debt**

As noted above, proceeds of 2004 and 2014 refunding bond issuances were used to purchase U.S. government securities to retire previous bond issues (i.e. 2008 and 2009). Sufficient U.S. government, state and local governmental securities were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District's financial records. The amount of the District's defeased debt is not readily determinable.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
(continued)

**III. Detailed Notes on All Funds (continued)**

**E. Long-term Debt – Governmental Activities (continued)**

**5. Schedule of Future General Obligation Bond Payments**

The District's aggregate annual debt service requirements for general obligation bonds at June 30, 2018, are as follows:

Fiscal Year Ending	Debt	
	Total Principal	Total Interest
2019	\$ 2,250,000	\$ 2,017,038
2020	2,355,000	1,921,250
2021	2,445,000	1,849,700
2022	2,495,000	1,787,825
2023	2,575,000	1,698,900
2024 - 2028	14,735,000	6,467,125
2029 - 2033	18,670,000	2,702,375
2034	4,140,000	82,800
Total	\$49,665,000	\$18,527,013
Add: Unamortized bond premium	5,200,866	
Total bonded debt	\$54,865,866	

**6. Changes in Long-term Liabilities**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds:					
Bonds, Series 2009	\$ 4,025,000	\$ -	\$ (1,975,000)	\$ 2,050,000	\$ 2,050,000
Refunding, Series 2014	47,815,000	-	(200,000)	47,615,000	200,000
Unamortized bond premiums/discounts	5,564,232	-	(363,366)	5,200,866	-
Net Pension Liability	72,404,411	4,439,027	-	76,843,438	-
Net OPEB Liability	-	1,752,188	-	1,752,188	-
Accrued compensated absences	154,766	24,066	(13,498)	165,335	41,334
<b>Total Governmental Activities</b>	\$129,963,409	\$ 6,215,281	\$ (2,551,864)	\$133,626,827	\$ 2,291,334

For governmental activities, compensated absences are liquidated by the General Fund.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**F. Fund Balance Classifications**

The District classifies governmental fund balances as follows:

*Non-spendable* – includes fund balance amounts inherently non-spendable since they represent inventories, prepaid items, long-term portions of loans receivable, etc.

*Spendable Fund Balance:*

*Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board of the District. The District's original budget legislation begins with combining historical data, assessment of needs for the upcoming year and the District's platform to review, and/or make changes to each department's budget. The budget is formally presented to the School Board of the District via an advertised public process for their review, revisions and final approval by year-end. All subsequent budget requests made during the year, after School Board approval, must be presented via a public process and again approved by the School Board of the District. The District has committed \$2,650,240 for future year's expenditures, \$84,844 for food service, \$2,418,687 for educational purposes, and \$559,929 for student activities as of June 30, 2018.

*Assigned* – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board of the District or its management designees.

*Unassigned* – includes residual positive fund balance within the General Fund, which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes. The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit this, such as grant agreements that require dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts when expenditures are made. The District does not have an adopted minimum fund balance policy; however, the District's budget includes calculations of targeted reserve positions, which is reported annually to the School Board of the District.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

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

At June 30, 2018, the District reported a liability of \$76,843,438 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The District's proportion of the net pension liability was based on District contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the District proportion was 0.2376% as compared to its proportion of 0.2432% measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$16,257,405. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,412,827	\$ -
Net difference between projected and actual earnings on pension plan investments	-	3,017,715
Changes in actuarial assumptions	19,620,985	124,510
Changes in proportionate share of contributions	245,091	729,176
Difference between actual and reported contributions recognized	4,195	-
Contributions subsequent to the measurement date	1,161,031	-
	\$ 22,444,129	\$ 3,871,401

Contributions subsequent to the measurement date of December 31, 2017, which are reported as deferred outflows of resources related to pensions, 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	\$ 11,979,663
2020	6,627,833
2021	(60,523)
2022	(1,135,276)
	\$ 17,411,697

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

*Actuarial assumptions.* The total pension liability in the December 31, 2016, actuarial valuation was determined using the following 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 prior to 12/3/06; (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

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:

Asset Class	Target Allocation	30 Year Expected Geom 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%.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

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

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

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

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 District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 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%)
Collective net pension liability	\$ 40,846,431,000	\$ 32,336,446,000	\$ 25,401,780,000
Proportionate share of net pension liability	\$ 97,066,332	\$ 76,843,438	\$ 60,364,089

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

*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.

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](http://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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

- 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 District reported a liability of \$76,843,438 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 District's 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.

	<b>Estimated Discount Rate</b> <b>Discount Rate</b> <b>Plan Provisions</b> <b>Calculated Using</b> <b>Required by SB 18-200</b> <b>(pro forma)</b>	<b>Proportionate Share</b> <b>of the Estimated</b> <b>Net Pension Liability</b> <b>Calculated Using</b> <b>Plan Provisions</b> <b>Required by SB 18-200</b> <b>(pro forma)</b>
Collective Net Pension Liability	7.25%	\$ 14,609,326,000
Proportionate Share of Net Pension Liability	7.25%	34,717,199

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 \$35,870,997 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources**

At June 30, 2018, the District reported a liability for Other Post-Employment Benefits ("OPEB") of the Health Care Trust Fund ("HCTF") of \$1,752,188 for its proportionate share of net OPEB. The net OPEB liability 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 District's proportion of the net OPEB liability was based on District contributions to the Health Care Trust Fund ("HCTF") for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the District proportion was 0.1348% as compared to its proportion of 0.1382% measured as of December 31, 2016.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
(continued)

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (continued)**

For the year ended June 30, 2018, the District recognized other post-employment benefit expense of \$17,561. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expenses and actual experience	8,286	29,314
Change of assumptions or other inputs	-	36,864
Changes in proportionate share of contributions	-	205
Contributions subsequent to measurement date	11,965	-
	20,251	66,383

Contributions subsequent to the measurement date of December 31, 2017, which are reported as deferred outflows of resources related to other post-employment benefits, will be recognized as a reduction of the net other post-employment benefits 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:

<b>Year Ended June 30,</b>	<b>Amortization</b>
2019	(12,983)
2020	(12,983)
2021	(12,983)
2022	(12,980)
2023	(5,655)
Thereafter	(513)
	(58,097)

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (continued)**

*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 costs trend rates	
PERA benefit structure:	
Services based on 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:	
Services based on 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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (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:

<b>Year Ending</b>	<b>PERACare Medicare Plans</b>	<b>Medicare Part A Premiums</b>
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 OPEB liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

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

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

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

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

- **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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (continued)**

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.
- 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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
(continued)

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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 Bonds	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

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

*Sensitivity of the District's 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:

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
PERA Care 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	3.25%	4.25%	5.25%
Collective Net OPEB Liability	1,263,843,000	1,299,600,000	1,342,667,000
Proportionate Share of Net OPEB Liability	1,703,979	1,752,188	1,810,253

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Health Care Trust Fund Liabilities and Related Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources (continued)**

*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%.
- 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 District's 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:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Collective Net OPEB Liability	1,461,159,000	1,299,600,000	1,161,705,000
Proportionate Share of Net OPEB Liability	1,970,010	1,752,188	1,566,271

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

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
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**(continued)**

**IV. Other Information**

**A. Defined Benefit Pension Plan**

**Plan Description.** Eligible employees of the District are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

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

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**A. Defined Benefit Pension Plan (continued)**

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

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

*Contributions.* Eligible employees and the District are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below with rates expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42):

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the District were \$2,096,826 for the year ended June 30, 2018.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**B. Postemployment Healthcare Benefits**

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

*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.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**B. Postemployment Healthcare Benefits (continued)**

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 on behalf of benefit recipients not covered by Medicare Part A.

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

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

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local 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 District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from District were \$117,066 for the year ended June 30, 2018.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**C. Defined Contribution Pension Plan**

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

*Funding Policy.* Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions, employer contributions and investment earnings. The employer contributions to the 401(k) Plan from the District for the years ended June 30, 2018, 2017 and 2016, were \$2,112, \$2,464, and \$4,576, respectively.

**D. 403(b) Defined Contribution Pension Plan**

*Plan Description.* The District offers participation in an independent 403(b) retirement savings plan. All employees are eligible except student teachers. Contribution limits are set by the IRS. The District contracts with American Fidelity Insurance Company ("AFPlanServ") as Plan Administrator. The District makes minimal contributions to the plan for a limited segment of grandfathered employees.

**E. 457(b) Deferred Compensation Plan**

*Plan Description.* The District has a deferred compensation plan created in accordance with IRC Section 457 for employees working 30 hours or more per week. This plan is administered by Waddell & Reed. Participation in the plan is optional. Contribution limits are set by the IRS. The District makes minimal contributions to the plan for limited segment of grandfathered employees.

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**F. Risk Management**

*Risk of Loss:* The District is exposed to various risks of loss related to workers' compensation, general liability, unemployment, torts, theft of, damage to, and destruction of assets, and error and omissions. The District carries commercial coverage for these risks and claims and does not expect claims to exceed their coverage. For the last three years, settled claims have not exceeded commercial insurance coverage, nor has there been any reduction in insurance coverage.

*Pupil Counts:* Each year the District submits data regarding pupil counts to the Colorado Department of Education (CDE). The purpose of this data collection is to obtain required student level data as provided for by state statute(s), including information regarding students' funding eligibility as outlined in the Public School Finance Act of 1994 (22-54-101, C.R.S.).

The Student October Count is based on a one (1) day membership count in which districts are asked to report all students who are actively enrolled and attending classes through their district on that date. In an effort to ensure accurate reporting of those data fields associated with student funding, CDE conducts periodic compliance audits of each district's student October count data. This data not only determine per pupil funding, but also at risk and English Language Proficiency Act (ELPA) funding. CDE audits districts every one to four years, the frequency of which is determined by a number of factors including, but not limited to, the size and location of the district, as well as issues or concerns that might have arisen from prior audits.

The District believes its pupil count information is accurate and any adjustment would not be material.

*Self-Insurance Fund:* The District also offers health insurance to certain employees through the District's self-funded health plan with excess coverage underwritten by a commercial carrier. The District accumulates resources to pay health insurance costs but carries a stop loss policy for individuals for \$75,000 and an aggregate stop loss minimum exposure of \$2,509,690. Liabilities for retained risk claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR").

The following is a summary of the changes in the balances of claims liabilities during 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Unpaid claims, beginning	\$ 328,659	\$ 301,800
New claims incurred	2,077,376	2,123,017
Claim payments	(2,096,561)	(2,096,158)
Unpaid claims, ending	\$ 309,474	\$ 328,659

**Gunnison Watershed School District RE-1J**  
**Notes to the Financial Statements**  
**June 30, 2018**  
**(continued)**

**IV. Other Information (continued)**

**G. Contingencies**

**1. Legal Claims**

During the normal course of business, the District incurs claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives feel none of these claims or assertions are significant enough that they would materially affect the fairness of the presentation of the financial statements at June 30, 2018.

**2. Federal Programs**

Funds received from Federal grants are subject to audit and disallowance of ineligible cost. Management of the District feels any potential questioned or disallowed costs or liability arising from the Federal program audits would not materially affect the fairness of the presentation of the financial statements at June 30, 2018.

**3. State Programs**

The District receives payment for State equalization, State transportation and various other State revenues to fund programs. These grants and programs are subject to audit and may result in the District either refunding amounts due for overpayment or receiving additional revenue for underpayment by the State.

These adjustments can be material. The amount of these adjustments cannot be estimated or determined as of the date of these financial statements.

**H. Colorado Department of Education Financing – Interest Free Loan Program**

The Colorado Department of Education allows school districts to borrow funds up to the next year's estimated property tax collections for the specific district to cover operating expenditures. The program was established to assist districts who receive the majority of their program funding through local property taxes. Most property tax revenues are not received by school districts until the last four months of the fiscal year resulting in a cash flow deficit. The loans are repaid to the State as property taxes are collected.

In the fiscal year 2018, the District did not obtain any financing from the State of Colorado in order to meet the District's obligations.

**I. Restatement of Net Position**

In 2018, the District implemented Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, requires employers to recognize their long-term obligation for OPEB as a liability and OPEB related deferred outflows of resources and deferred inflows of resources on the Statement of Net Position. As such, the District's 2018 financial statements report a restatement of net position on the Statement of Activities for governmental activities for \$1,780,759 which was the net amount of the District's long-term obligation of \$1,792,160 and deferred outflows of resources of \$11,401 related to OPEB benefits at June 30, 2017.

Gunnison Watershed School District RE-1J

Required Supplementary Information



**Gunnison Watershed School District RE-1J**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances - Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	2018			Variance with Final Budget- Positive (Negative)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Taxes:					
Property taxes levied for general purposes	8,749,747	9,202,475	9,342,217	139,742	8,968,538
Specific ownership taxes	939,000	1,014,000	1,137,364	123,364	1,011,346
Other taxes	-	-	38,408	38,408	-
Federal income	715,546	975,502	1,008,420	32,918	816,889
State income	8,100,562	7,379,763	7,530,156	150,393	6,918,429
Investment income	40,000	65,000	139,084	74,084	67,665
Other	155,408	107,123	136,183	29,060	142,231
Total revenues	<u>18,700,263</u>	<u>18,743,863</u>	<u>19,331,832</u>	<u>587,969</u>	<u>17,925,098</u>
<b>EXPENDITURES</b>					
Direct instruction	11,413,341	11,335,212	10,931,216	403,996	10,364,064
Indirect instruction	1,611,930	1,660,816	1,530,911	129,905	1,416,609
General administration	1,834,835	1,834,656	1,691,709	142,947	1,613,200
Support services	803,911	807,321	761,786	45,535	652,126
Custodial and maintenance	1,558,362	1,555,425	1,568,361	(12,936)	1,619,285
Transportation	699,172	699,065	669,200	29,865	675,782
Community service	1,000	1,121	859	262	797
Capital outlay	172,425	171,878	167,406	4,472	159,651
Total expenditures	<u>18,094,976</u>	<u>18,065,494</u>	<u>17,321,448</u>	<u>744,046</u>	<u>16,501,514</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>605,287</u>	<u>678,369</u>	<u>2,010,384</u>	<u>1,332,015</u>	<u>1,423,584</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of fixed assets	1,000	1,000	145	(855)	-
Transfers in (out)	(606,287)	(800,730)	(791,587)	9,143	(955,014)
Total other financing sources (uses)	<u>(605,287)</u>	<u>(799,730)</u>	<u>(791,442)</u>	<u>8,288</u>	<u>(955,014)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>(121,361)</u>	<u>1,218,942</u>	<u>1,340,303</u>	<u>468,570</u>
<b>FUNDS BALANCES, BEGINNING</b>			<u>4,781,999</u>		<u>4,313,429</u>
<b>FUND BALANCES, ENDING</b>			<u>6,000,941</u>		<u>4,781,999</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Food Services Fund**  
**Schedule of Revenues, Expenditures and Changes in Net Position**  
**Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	2018		Actual Amounts	Variance with Final Budget- Positive (Negative)	2017
	Budgeted Amounts				Actual Amounts
	Original	Final			Actual Amounts
<b>REVENUES</b>					
Food sales	266,370	295,070	310,814	15,744	281,032
Federal aid:					
Federal government meal reimbursement	196,700	202,500	189,515	(12,985)	203,815
USDA Commodity contribution	32,559	32,559	27,106	(5,453)	35,594
Other	10,000	10,000	7,491	(2,509)	8,551
State reimbursement	6,316	6,316	6,829	513	6,443
Total revenues	<u>511,945</u>	<u>546,445</u>	<u>541,755</u>	<u>(4,690)</u>	<u>535,435</u>
<b>EXPENDITURES</b>					
Salaries and employee benefits	498,649	508,297	499,455	8,842	456,864
Purchased services	2,300	2,675	2,405	270	1,795
Supplies	14,592	22,417	22,669	(252)	20,645
Food costs:					
Purchased food	274,059	272,559	241,595	30,964	241,316
Donated commodities	-	-	27,106	(27,106)	35,594
Other	2,346	2,346	1,230	1,116	1,405
Total expenditures	<u>791,946</u>	<u>808,294</u>	<u>794,460</u>	<u>13,834</u>	<u>757,619</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(280,001)</u>	<u>(261,849)</u>	<u>(252,705)</u>	<u>9,144</u>	<u>(222,184)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	<u>280,001</u>	<u>261,849</u>	<u>252,705</u>	<u>(9,144)</u>	<u>222,184</u>
Total other financing sources	<u>280,001</u>	<u>261,849</u>	<u>252,705</u>	<u>(9,144)</u>	<u>222,184</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL NET POSITION, BEGINNING</b>			<u>90,764</u>		<u>90,764</u>
<b>TOTAL NET POSITION, ENDING</b>			<u>90,764</u>		<u>90,764</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Pupil Activity Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	<u>2018</u>			<b>Variance with Final Budget- Positive (Negative)</b>	<u>2017</u>
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>			
<b>REVENUES</b>					
Charges for services	844,205	895,084	1,147,940	252,856	1,074,138
Total revenues	<u>844,205</u>	<u>895,084</u>	<u>1,147,940</u>	<u>252,856</u>	<u>1,074,138</u>
<b>EXPENDITURES</b>					
Student activities	958,401	1,168,654	1,069,636	99,018	1,051,172
Capital outlay	5,640	5,640	3,648	1,992	7,756
Total expenditures	<u>964,041</u>	<u>1,174,294</u>	<u>1,073,284</u>	<u>101,010</u>	<u>1,058,928</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(119,836)</u>	<u>(279,210)</u>	74,656	<u>353,866</u>	15,210
<b>FUND BALANCES, BEGINNING</b>			<u>485,273</u>		<u>470,063</u>
<b>FUND BALANCES, ENDING</b>			<u>559,929</u>		<u>485,273</u>

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

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**2014 Mill Levy Override Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	<u>2018</u>			<b>Variance with Final Budget- Positive (Negative)</b>	<u>2017</u>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>		<b>Actual Amounts</b>
	<u>Original</u>	<u>Final</u>			
<b>REVENUES</b>					
Property taxes	2,465,763	2,461,109	2,472,913	11,804	2,455,729
Investment income	20,000	20,000	37,699	17,699	28,446
Total revenues	<u>2,485,763</u>	<u>2,481,109</u>	<u>2,510,612</u>	<u>29,503</u>	<u>2,484,175</u>
<b>EXPENDITURES</b>					
Direct instruction	1,753,921	1,763,407	1,556,202	207,205	1,729,712
Capital Outlay	324,750	320,250	320,147	103	325,850
Total expenditures	<u>2,078,671</u>	<u>2,083,657</u>	<u>1,876,349</u>	<u>207,308</u>	<u>2,055,562</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>407,092</u>	<u>397,452</u>	634,263	<u>236,811</u>	428,613
<b>FUND BALANCES, BEGINNING</b>			<u>1,784,424</u>		<u>1,355,811</u>
<b>FUND BALANCES, ENDING</b>			<u>2,418,687</u>		<u>1,784,424</u>

The accompanying notes are integral part of these financial statements.

**Gunnison Watershed School District RE-1J**  
**Schedule of Employer's Proportionate Share of the Net Pension Liability**  
**Colorado Public Employees' Retirement Association School Division Trust Fund**  
**Last 10 Fiscal Years \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.2376%	0.2432%	0.2398%	0.2376%	0.2357%
District's proportionate share of the net pension liability	\$ 76,843,438	\$ 72,404,411	\$ 36,669,667	32,205,237	29,234,402
District's covered payroll	\$ 11,477,095	\$ 11,167,464	\$ 10,767,904	\$ 10,274,179	\$ 9,754,147
District's proportionate share of the net pension liability as a percentage of its covered payroll	670%	648%	341%	313%	300%
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.13%	59.16%	62.84%	64.07%

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. Information is only available beginning in fiscal year 2014.

The accompanying notes are integral part of these financial statements.

**Gunnison Watershed School District RE-1J**  
**Schedule of District Contributions**  
**Colorado Public Employees' Retirement Association School Division Trust Fund**  
**Last 10 Fiscal Years \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,042,207	\$ 1,978,781	\$ 1,810,761	\$ 1,635,524	\$ 1,475,469
Contributions in relation to the contractually required contribution	<u>\$ (2,042,207)</u>	<u>\$ (1,978,781)</u>	<u>\$ (1,810,761)</u>	<u>\$ (1,635,524)</u>	<u>\$ (1,475,469)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 11,477,095	\$ 11,167,464	\$ 10,767,904	\$ 10,274,179	\$ 9,754,147
Contributions as a percentage of covered payroll	17.79%	17.72%	16.82%	15.92%	15.13%

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. Information is only available beginning in fiscal year 2014.

The accompanying notes are integral part of these financial statements.

**Gunnison Watershed School District RE-1J**  
**Schedule of District's Proportionate Share of the Net OPEB Liability**  
**Colorado Public Employees' Retirement Association Health Care Trust Fund**  
**Last 10 Fiscal Years \***

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.1348%	0.1382%
District's proportionate share of the net OPEB liability	1,752,188	1,792,160
District's covered-employee payroll	11,477,095	11,167,464
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15%	16%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%	16.72%

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within fiscal year. Information is only available beginning in fiscal year 2017.

The accompanying notes to RSI are an integral part of these statements.

**Gunnison Watershed School District RE-1J**  
**Schedule of District OPEB Contributions**  
**Colorado Public Employees' Retirement Association Health Care Trust Fund**  
**Last 10 Fiscal Years \***

	<u>2018</u>	<u>2017</u>
Contractually required contribution	111,764	111,327
Contributions in relation to the contractually required contribution	<u>(111,764)</u>	<u>(111,327)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>
District's covered-employee payroll	11,477,095	11,167,464
Contributions as a percentage of covered-employee payroll	0.97%	1.00%

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. Information is only available beginning in fiscal year 2017.

The accompanying notes to RSI are an integral part of these statements.

**Gunnison Watershed School District RE-1J**  
**Notes to the Required Supplementary Information**  
**June 30, 2018**  
**(continued)**

**I. Schedule of the District's Proportionate Share of the Net Pension Liability**

**A. Changes to assumptions or other inputs**

**1. Changes Since the December 31, 2016 Actuarial Valuation are as Follows:**

- The single equivalent interest rate ("SEIR") was lowered from 5.26 percent to 4.78 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the FNP, and the resulting application of the municipal bond index rate.
- The municipal bond index rate used in the determination of the SEIR changed from 3.86 percent on the prior measurement date to 3.43 percent on the measurement date.

**2. Changes Since the December 31, 2015 Actuarial Valuation are as Follows:**

- The investment return assumption was lowered from 7.5 percent to 7.25 percent
- The wage inflation assumption was lowered from 3.90 percent to 3.50 percent
- The post-retirement mortality assumption for healthy lives for the School and Denver Public School ("DPS") Divisions was changed to the RP-2014 White Collar Healthy Annuitant Mortality Table with adjustments for credibility and gender adjustments of a 93 percent factor applied to ages below 80 and a 113 percent factor applied to age 80 and above, projected to 2018, or males, and a 68 percent factor applied to ages below 80 and a 106 percent factor applied to age 80 and above, projected to 2020, for females.
- For disabled retirees, the mortality assumption was changed to reflect 90 percent of RP-2014 Disabled Retiree Mortality Table.
- The mortality assumption for active members was changed to 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.
- The rates of retirement, withdrawal, and disability were revised to reflect more closely actual experience.
- The estimated administrative expense as a percentage of covered payroll was increased from 0.35 percent to 0.40 percent.
- The single equivalent interest rate (the "SEIR") for the SCHDTF was lowered from 7.50 percent to 5.26 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the fiduciary net position (the "FNP"), and the resulting application of the municipal bond index rate

**3. Changes Since the December 31, 2014 Actuarial Valuation are as Follows:**

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18-month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.

**Gunnison Watershed School District RE-1J**  
**Notes to the Required Supplementary Information**  
**June 30, 2018**  
**(continued)**

**I. Schedule of the District's Proportionate Share of the Net Pension Liability (continued)**

**A. Changes to assumptions or other inputs (continued)**

**3. Changes Since the December 31, 2014 Actuarial Valuation are as Follows (continued):**

- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

**B. Changes of benefit terms.**

No changes during the years presented above.

**C. Changes of size or composition of population covered by benefit terms.**

No changes during the years presented above.

**II. Notes to the Schedule of District Pension Contributions**

**A. Changes to assumptions or other inputs**

No changes during the years presented above.

**B. Changes of benefit terms**

No changes during the years presented above.

**C. Changes of size or composition of population covered by benefit terms**

No changes during the years presented above.

**III. Schedule of the District's Proportionate Share of the OPEB Liability**

**A. Changes to assumptions or other inputs**

No changes during the years presented.

**B. Changes of benefit term**

No changes during the years presented.

**C. Changes of size or composition of population covered by terms**

No changes during the years presented.

**Gunnison Watershed School District RE-1J**  
**Notes to the Required Supplementary Information**  
**June 30, 2018**  
**(continued)**

**IV. Notes to the Schedule of District OPEB Contributions**

**A. Changes to assumptions or other inputs**

No changes during the years presented.

**B. Changes of benefit terms.**

No changes during the years presented.

**C. Changes of size or composition of population covered by benefit terms.**

No changes during the years presented.

Gunnison Watershed School District RE-1J

Supplementary Information



**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Bond Redemption Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	2018			Variance with Final Budget- Positive (Negative)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Property taxes	4,275,788	4,275,788	4,572,941	297,153	4,209,563
Investment income	12,000	12,000	13,469	1,469	13,013
Total revenues	<u>4,287,788</u>	<u>4,287,788</u>	<u>4,586,410</u>	<u>298,622</u>	<u>4,222,576</u>
<b>EXPENDITURES</b>					
Debt service:					
Principal	2,175,000	2,175,000	2,175,000	-	2,115,000
Interest and fiscal charges	2,112,788	2,112,788	2,111,788	1,000	2,188,875
Total expenditures	<u>4,287,788</u>	<u>4,287,788</u>	<u>4,286,788</u>	<u>1,000</u>	<u>4,303,875</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>299,622</u>	<u>299,622</u>	<u>(81,299)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>299,622</u>	<u>299,622</u>	<u>(81,299)</u>
<b>FUND BALANCES, BEGINNING</b>			<u>3,558,627</u>		<u>3,639,926</u>
<b>FUND BALANCES, ENDING</b>			<u><u>3,858,249</u></u>		<u><u>3,558,627</u></u>

The accompanying notes are integral part of these financial statements.

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Capital Reserve Capital Projects Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	2018			Variance with Final Budget- Positive (Negative)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Investment income	-	-	5,284	5,284	-
Other revenue	-	-	-	-	325,000
Total revenues	-	-	5,284	5,284	325,000
<b>EXPENDITURES</b>					
Facilities	426,287	426,287	38,078	388,209	126,008
Technology	-	-	-	-	132,026
Total expenditures	426,287	426,287	38,078	388,209	258,034
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(426,287)	(426,287)	(32,794)	393,493	66,966
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	326,287	538,882	538,882	-	732,830
Total other financing sources	326,287	538,882	538,882	-	732,830
<b>NET CHANGE IN FUND BALANCES</b>	(100,000)	112,595	506,088	393,493	799,796
<b>FUND BALANCES, BEGINNING</b>			2,236,410		1,436,614
<b>FUND BALANCES, ENDING</b>			2,742,498		2,236,410

The accompanying notes are integral part of these financial statements.

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**Internal Service Fund**  
**Health Services Fund**  
**Schedule of Revenues, Expenditures and Changes in Net Position**  
**Budget and Actual (GAAP Basis)**  
**For the Year Ended June 30, 2018**  
**(With Comparative Actual Amounts for 2017)**

	2018			Variance with Final Budget- Positive (Negative)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Insurance premiums	2,144,450	2,175,450	2,442,290	266,840	2,197,515
Stop loss reimbursements	-	0	10,602	10,602	175,602
Total revenues	2,144,450	2,175,450	2,452,892	277,442	2,373,117
<b>EXPENDITURES</b>					
Claim losses	1,691,532	1,691,532	1,602,800	88,732	1,608,999
Stop loss premiums and fees	36,500	483,918	493,760	(9,842)	487,159
Contingency	416,418	-	-	-	-
Total expenditures	2,144,450	2,175,450	2,096,560	78,890	2,096,158
<b>CHANGE IN NET POSITION</b>	-	-	356,332	356,332	276,959
<b>TOTAL NET POSITION, BEGINNING</b>			1,571,348		1,294,389
<b>TOTAL NET POSITION, ENDING</b>			1,927,680		1,571,348

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



**Colorado Department of Education**  
**Auditors Integrity Report**  
 District: 1360 - GUNNISON WATERSHED RE1J  
 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	4,781,999	18,540,390	17,321,448	6,000,942
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
<b>Sub- Total</b>	<b>4,781,999</b>	<b>18,540,390</b>	<b>17,321,448</b>	<b>6,000,942</b>
11 Charter School Fund	118,491	636,387	576,181	178,696
20,26-29 Special Revenue Fund	1,784,424	2,510,612	1,876,349	2,418,687
21 Food Service Spec Revenue Fund	90,764	794,461	794,461	90,764
22 Govt Designated-Purpose Grants Fund	0	0	0	0
23 Pupil Activity Special Revenue Fund	485,273	1,147,940	1,073,284	559,929
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	3,558,627	4,586,410	4,286,788	3,858,249
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	2,236,410	544,167	38,078	2,742,498
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
<b>Totals</b>	<b>13,055,987</b>	<b>28,760,367</b>	<b>25,966,589</b>	<b>15,849,765</b>
<b>Proprietary</b>				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	1,571,348	10,603	-345,730	1,927,680
<b>Totals</b>	<b>1,571,348</b>	<b>10,603</b>	<b>-345,730</b>	<b>1,927,680</b>
<b>Fiduciary</b>				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

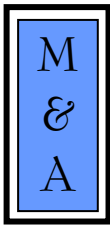
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\*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your priorperiod adjustment is added into both your ending and beginning fund balances on this report.

Gunnison Watershed School District RE-1J

Single Audit Reports and Schedules





# MCMAHAN AND ASSOCIATES, L.L.C.

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

**To the Board of Education  
Gunnison Watershed School District RE-1J  
Gunnison, Colorado**

We have audited, in accordance with U.S. generally accepted auditing standards 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 business-type activities, each component unit, and each major fund of Gunnison Watershed School District RE-1J (the "District") 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 and have issued our report thereon dated December 4, 2018.

### ***Internal Control Over Financial Reporting***

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the District's financial statements are free of 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*.

*Member: American Institute of Certified Public Accountants*

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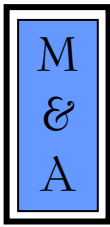
**INDEPENDENT AUDITOR'S REPORT**  
**To the Board of Education**  
**Gunnison Watershed School District RE-1J**  
**Gunnison, Colorado**

***Purpose of this Report***

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

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.**  
**December 4, 2018**



# MCMAHAN AND ASSOCIATES, L.L.C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

**To the Board of Education  
Gunnison Watershed School District RE-1J  
Gunnison, Colorado**

### ***Report on Compliance for Each Major Program***

We have audited the compliance of the Gunnison Watershed School District RE-1J (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibilities***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibilities***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

*Member: American Institute of Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**  
**To the Board of Education**  
**Gunnison Watershed School District RE-1J**  
**Gunnison, Colorado**

***Report on Internal Control Over Compliance***

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 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 the 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 in the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.**  
**December 4, 2018**

**Gunnison Watershed School District RE-1J  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2018**

**Part I: Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	None noted
Significant deficiency identified	None noted
Noncompliance material to financial statements noted	None noted

*Federal Awards*

Internal control over major programs:	
Material weakness identified	None noted
Significant deficiency identified	None noted
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200	None Noted
Major programs -	
Title I Part A	CFDA# 84.010
Dollar threshold used to identify Type A from Type B programs	\$750,000
Identified as low-risk auditee	Yes

**Part II: Findings Related to Financial Statements**

Findings related to financial statements as required by Government Auditing Standards	None noted
Auditor-assigned reference number	Not applicable

**Part III: Findings Related to Federal Awards**

Internal control findings	None noted
Compliance findings	None noted
Questioned costs	None noted
Auditor assigned reference number	Not applicable

**Gunnison Watershed School District RE-1J  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2018**

**Note:** There were no findings for the fiscal year ended June 30, 2017.

**GUNNISON WATERSHED SCHOOL DISTRICT RE-1J**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
**Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Project Code	Disbursements Recognized	
<u>U.S. Department of Education</u>				
Passed Through State Department of Education:				
Title I, Part A, Improving Basic Programs Operated by Schools	84.010	4010	\$ 247,787	
IDEA Part B, Special Education	84.027	4027	308,561	<b>A</b>
Part B (IDEA) Special Education: Preschool	84.173	4173	3,399	<b>A</b>
Small Rural School Achievement Program	84.358	4358	2,927	
Title III, Part A, English Language Acquisition	84.365	4365	10,484	
Title II, Part A, Teacher and Principal Training and Recruiting	84.367	4367	46,972	
Title IV, Part A, Student Support and Academic Enrichment	84.424A	4424	10,000	
IDEA , Part D, State Program Improvement Grant	84.323	5323	11,323	
Race to the Top-Early Learning Challenge	84.412	5412	1,393	
Passed Through Board of Community College:				
Carl Perkins Vocational & Applied Technology	84.048	4048	15,454	
TOTAL U.S. DEPARTMENT OF EDUCATION			658,300	
<u>United States Forest Service</u>				
Passed through Saguache County				
Schools & Roads - Grants to States	10.665	7665	212,595	<b>C</b>
TOTAL UNITED STATES FOREST SERVICE			212,595	
<u>Department of Agriculture:</u>				
Passed through Colorado Department of Education:				
National School Lunch Program	10.555	4555	144,738	<b>B</b>
School Breakfast Program	10.553	4553	44,776	<b>B</b>
Summer Food Program	10.559	4559	7,190	<b>B</b>
Passed Through the Colorado Department of Human Services:				
Food Distributions, Commodities	10.555	4555	27,106	<b>B</b>
TOTAL DEPARTMENT OF AGRICULTURE			223,811	
TOTAL FEDERAL ASSISTANCE			\$ 1,094,706	

**Additional Information for Clusters:**

<b>A</b> - Special Education Cluster (IDEA)	\$ 311,960
<b>B</b> - Child Nutrition Cluster	\$ 223,811
<b>C</b> - Forest Service Schools & Roads Cluster	\$ 212,595

**Notes to the Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2018:**

**Note 1 - Basis of Presentation:**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Gunnison Watershed School District RE-1J and is presented on the modified accrual basis of accounting. 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")*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of the basic financial statements.

**Note 2 - Determining the Value of Non-cash Awards Expended:**

Food Commodities: Valued at the assessed value provided by the federal agency at the time of receipt.

**Note 3 - Indirect Facilities and Administration Costs:**

The District did not use the 10% de minimis cost rate allowed in 200.414, Indirect (F&A) Costs, of the Uniform Guidance. The District used the indirect cost rates provided by the Colorado Department of Education.

**Note 4 - Sub recipients:**

Gunnison Watershed School District RE-11J did not provide any federal funds listed in the Schedule of Expenditures of Federal Awards to sub-recipients.