

**HANOVER SCHOOL DISTRICT NO. 28**

**EL PASO COUNTY, COLORADO**

**FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2018**

**CPA**

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**HANOVER SCHOOL DISTRICT NO. 28**  
**EL PASO COUNTY, COLORADO**  
**BASIC FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2018**

HANOVER SCHOOL DISTRICT NO. 28

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Education  
Hanover School District No. 28  
El Paso County, Colorado

I have audited the accompanying financial statements of the governmental activities, each major fund, of the Hanover School District No. 28, El Paso County, Colorado (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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 19 to the financial statements, the 2017 financial statements have been restated to reflect the adoption of GASB Statement Number 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The adoption of the standard required restatement of the beginning June 30, 2018 fiscal year net position. My opinion is not modified with respect to this matter.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability and OPEB liability, the schedule of contributions and related ratios – pensions and OPEB, and budgetary comparison information shown as required supplementary information in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The statements included in the other supplementary information section and Colorado Department of Education Auditor's Integrity Report are presented for additional analysis and are not a required part of the basic financial statements.

The other supplementary information and Colorado Department of Education Auditor's Integrity Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Colorado Springs, Colorado  
February 20, 2019



**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## HANOVER SCHOOL DISTRICT No. 28

### Management's Discussion and Analysis 2017-2018

As management of the Hanover School District No. 28, we offer readers of the District's Comprehensive Annual Financial Report this narrative 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.

#### Financial Highlights

- The primary government has government-wide net position (deficit) totaling \$(2,991,602) at the end of the current fiscal year.
- Governmental activities have unrestricted (deficit) net position of \$(6,976,041).
- Fund balance of the District's governmental funds increased by \$257,586 in 2017-2018.
- The Districts' long-term obligation debt decreased \$625,000 to \$4,095,000.

#### Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the District's financial statements. The Hanover School District No. 28's basic financial statements are comprised of two components, Basic Financial Statements and Supplemental Information. The Basic Financial Statements have the three sections: 1) Government-wide Financial Statements and 2) Fund Financial Statements, and 3) Notes to the Financial Statements. The Supplemental Information is comprised of the combining and individual fund statements and schedules.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers a broad overview of Hanover School District No. 28's financial activities in a manner similar to a private sector business.

The statement of net position presents information on all of the District's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying events occur, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (example: levied but uncollected property taxes and earned but unused employee's vacation leave).

The government-wide financial statements consolidate governmental that are principally supported by taxes and intergovernmental revenues. Governmental activities consolidate all

## **HANOVER SCHOOL DISTRICT No. 28**

of the following Hanover School District No. 28 funds: General Fund, Food Service Fund, Designated Purpose Grant Fund, Debt Service Fund and Pupil Activity Fund.

### **Fund Financial Statements**

These statements focus on individual parts of the District. The District's operations are in more detail than the government-wide statements.

### **Governmental Funds**

The governmental funds statements show how basic services such as instruction were financed in the short-term as well as what remains (fund balances) for the future spending (budgeting).

The District adopts an annual appropriate budget for each of the individual governmental funds. A budgetary comparison schedule for the general fund is included in the fund financial statements to demonstrate compliance with the adopted budget.

### **Notes to the Financial Statements**

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.

### **Required Supplementary Information**

In addition to the financial statements and accompanying notes, this report also contains other required supplementary information concerning the District's Special Revenue Funds. The combining statements of the special revenue governmental funds are presented after the notes to the financial statements. A budgetary comparison schedule has been provided to the Special Revenue Funds to demonstrate compliance with its budget.

### **Government-wide Financial Analysis**

#### **Government-wide Net Position**

The assets of Hanover School District No. 28 are classified as current assets and capital assets. Cash, property taxes receivables and governmental accounts receivables are the current assets. These assets are available to provide the resources for the near-term operations of the District. Capital assets are used in the operations of the District. These assets include land, buildings, equipment and vehicles.

The liabilities of the District exceed assets by \$2,991,602. The only significant liabilities the district had in 2017-2018 school year is accounts payable of \$30,480, accrued salaries and benefits for teachers of \$326,995, accrued compensated absences of \$33,048 for employees and short and long-term general obligation bonds payable and bank notes payable of \$4,388,679. In addition, due to the implementation of GASB 68/75, the District recorded a

## HANOVER SCHOOL DISTRICT No. 28

net pension liability of \$11,649,952, OPEB liability of \$266,008, deferred outflows \$4,896,132 and deferred inflows of \$584,117.

### Condensed Statement of Net Position

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
Current and other assets	\$ 1,958,283	\$ 1,693,747
Capital assets	7,442,574	7,509,271
<b>Total Assets</b>	<b>9,400,857</b>	<b>9,203,018</b>
Deferred outflow of resources	4,896,132	3,475,116
Current and other liabilities	1,085,602	1,044,089
Long-term liabilities outstanding	15,618,872	14,405,711
<b>Total Liabilities</b>	<b>16,704,474</b>	<b>15,449,800</b>
Deferred inflow of resources	584,117	281,176
<b>Net Position</b>		
Invested in capital assets, net of related debt	3,044,583	2,665,320
Restricted for:		
TABOR	110,000	99,000
Debt Service	808,088	797,903
Preschool	21,768	22,337
Unrestricted	(6,976,041)	(6,637,402)
As restated		
<b>Total Net Position</b>	<b>\$ (2,991,602)</b>	<b>\$ (3,052,842)</b>

The major change in the net position from 2017-18 to 2016-17 is depreciation expense, purchase of fixed assets, principal debt reduction, accrued interest expense, deferred outflows/inflows of resources and the net pension liability.

#### Net Position 2016-2017

	Governmental	Business-Type	Total
<b>Total Liabilities, Deferred Inflows and Net Position</b>	\$ 12,678,134	\$ 0	\$ 12,678,134

#### Net Position 2017-2018

	Governmental	Business-Type	Total
<b>Total Liabilities, Deferred Inflows and Net Position</b>	\$14,296,989	\$ 0	\$ 14,296,989

**HANOVER SCHOOL DISTRICT No. 28**

**Government Activities/Business Type:**

The governmental activities increased the net position of the District by \$314,263 during the current fiscal year ended June 30, 2018.

	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>
Net position July 1, 2017	\$(3,305,865)	\$ -	\$(3,305,865)
Net position June 30, 2018	\$(2,991,602)	\$ -	\$(2,991,602)

The following is a comparison of the District's general revenues, program revenues and governmental activities:

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2018</b>
Charges for services	\$ 53,962	\$ 71,516
Operating and capital grants and contributions	375,239	432,947
General revenues:		
Property taxes	1,079,484	1,282,956
Specific ownership taxes	143,250	159,244
State Equalization	2,480,861	2,584,809
Interest and other sources	74,433	152,145
<b>Total Revenues</b>	<u>4,207,229</u>	<u>4,683,617</u>
Expenses:		
Instruction/Co-curricular	3,194,998	2,252,949
Support services	2,430,595	1,750,712
Debt service – interest	135,461	119,336
Facilities construction	-	-
Food services	341,142	246,357
<b>Total Expenses</b>	<u>6,102,196</u>	<u>4,369,354</u>
<b>Change in Net Position</b>	(1,894,967)	314,263
<b>Net Position – Beginning,</b>	<u>(1,157,875)</u>	<u>(3,305,865)</u>
<b>Net Position – Ending</b>	\$ <u>(3,052,842)</u>	\$ <u>(2,991,602)</u>

**Financial Analysis of the Government's Funds**

Hanover School District No. 28 uses fund accounting to ensure and demonstrate compliance with finance-related legal, federal and state requirements.

The General Fund is the primary major governmental fund (General Fund, Food Service Fund, Debt Service Fund, Pupil Activity Fund, Designated Purpose Grants Fund and Capital Projects Fund) for Hanover School District No. 28. The ending fund balance for the General Fund 2017-2018 is \$635,878 + Tabor and CPP reserves).

## HANOVER SCHOOL DISTRICT No. 28

The Special Revenue Funds (Food Service Fund, Designated Purpose Grants Fund and Pupil Activity Fund), Debt Service Fund and Capital Projects Fund are the remaining funds that make up the major governmental fund.

The Pupil Activity Fund balance was increased by \$9,450.

The Debt Service Fund balance was increased by \$10,185 over 2016-2017.

The Food Service fund is funded by the sale of lunches and monies from the federal lunch, breakfast and summer programs. The General Fund supports the lunch fund, which received a transfer out of \$60,434 for FY 2017-2018, and received transfer in of \$118,316 for FY 2017-2018 resulted in an increase in fund balance of \$23,594 to a total of \$96,537 for FY 2017-2018.

### **General Fund Budgetary Highlights**

The District budget is prepared according to Colorado law. The most significant budgeted fund is the General Fund.

Hanover School District No. 28 began budget development for the 2017-2018 budgets in February of 2017. In February all teaching staff and department heads are given budget request for their input into the needs of the District.

A mid-year analysis for 2017-2018 is completed in early March and enrollment projections and revenues estimated to begin a preliminary budget, which is submitted in first draft form to the Board of Education. The Accountability Committee, representing students, staff and citizens of the community review the budget prior to a Budget Workshop held in May. The Board has budget discussion on the draft proposed budget in April, May, and June. Once the initial budget is prepared two community meetings are held to provide input and feedback to the district. The budget is also posted by line item on the district website for all community members to review. Community members are asked to provide input and feedback on the website. Adoption of the 2017-2018 District budget occurred on or before June 28, 2017.

No significant additional budget appropriations were made during the fiscal year to the General Fund budget.

The 2017-2018 budgets included the following:

- The District experienced a workers compensation claim;
- CSDSIP Renewal increased in annual premium;
- Worker's Compensation annual premium increased;
- All employees receive and increase in salary;
- A new 15-passenger van was purchased for the transportation fleet;
- There were both a Board election and mill levy vote;
- The old school building's gym was renovated to use the gym;
- A 24-path CTE program was purchased and implemented at the high school.

## **HANOVER SCHOOL DISTRICT No. 28**

### **Capital Assets and Debt Administration**

The District's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$7,442,574. Additional information on the District's capital assets can be found in the notes of the Basic Financial Statements.

The District has General Obligations Bonds of \$4,095,000. Principal amounts retired during the year amounted to \$625,000.

The District has three bank notes payable to the Kansas Bank of Manhattan, one in the amount of \$19,544 and two, in the amount of \$11,594, and three, in the amount of \$22,495 for the purchase of two small buses and a Ford transit. Principal and interest payments for one are due in June and the other are due in September and December of each year.

The District has two bank notes payable to Farmers State Bank of Calhan, one in the amount of \$57,297 and two, in the amount of \$182,749 for the purchase of energy savings equipment.

Due to the implementation of Governmental Accounting Standards Board (GASB) 68 and 75, the District has recorded a net pension liability of \$11,649,952 and an OPEB liability of \$266,008 as of June 30, 2018.

### **Economic Factors and Next Year's Budgets**

Overall school budgets have decreased since 2009 in the state of Colorado due to the recession and the addition of a "negative factor" put in place by the state of Colorado in 2009. Over the past eight years the district has seen a significant drop in funding from the state as a result of these funds being taken back out of the schools – approximately \$2.8 million of lower funding. The residential and commercial property values in the school district are very low resulting in the District relying on the state to fund 87% of the District's annual budget. For the 2017-18 school year the assessed valuation of all properties in the District remained flat.

### **Contacting the District's Financial Management**

This report is designed to provide the District's citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and expends. If you have questions about this report or need additional financial information, contact the Business Management Office, Hanover School District No. 28, 17050 S. Peyton Hwy., Colorado Springs, CO 80928.

**BASIC FINANCIAL  
STATEMENTS**

**Hanover School District No. 28**  
**Statement of Net Position**  
**June 30, 2018**

	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 410,427
Cash and cash equivalents - restricted	704,117
Cash with county treasurer	13,671
Investments	593,874
Property taxes receivable	99,558
Grants receivable	128,218
Inventories	8,418
Capital assets:	
Land and construction in progress	227,585
Depreciable assets	14,053,581
Accumulated depreciation	(6,838,592)
Capital assets, net of depreciation	7,442,574
<b>Total assets</b>	<b>\$ 9,400,857</b>
<b>Deferred outflows of resources: See note 6</b>	<b>\$ 4,875,953</b>
<b>Deferred outflows of resources: See note 7</b>	<b>\$ 20,179</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 30,480
Accrued salaries and benefits	326,995
Accrued compensated absences	33,048
Accrued interest payable	9,312
Bank loan payable-current	40,767
General obligation bonds payable-current	645,000
Total current liabilities	1,085,602
Noncurrent liabilities:	
Net pension liability	11,649,952
Net OPEB liability	266,008
Bank loan payable	252,912
General obligation bonds payable	3,450,000
Total noncurrent liabilities	15,618,872
<b>Total liabilities</b>	<b>\$ 16,704,474</b>
<b>Deferred inflows of resources: See note 6</b>	<b>\$ 579,667</b>
<b>Deferred inflows of resources: See note 7</b>	<b>\$ 4,450</b>
<b>Net position</b>	
Invested in capital assets, net of related debt	\$ 3,044,583
Restricted for:	
Debt service	808,088
TABOR	110,000
Colorado preschool program reserve	21,768
Unrestricted (deficit)	(6,976,041)
<b>Total net position</b>	<b>\$ (2,991,602)</b>

The accompanying notes are an integral part of this financial statement

**Hanover School District No. 28**  
**Statement of Activities**  
**Fiscal year ended June 30, 2018**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions/Programs</b>					
Governmental activities:					
Regular instruction	\$ 2,059,950	\$ -	\$ 241,771	\$ -	\$ (1,818,179)
Cocurricular activities	192,999	53,664	-	-	(139,335)
Student services	62,339	-	-	-	(62,339)
Instructional staff	39,896	-	-	-	(39,896)
General administration	237,335	-	-	-	(237,335)
School administration	246,422	-	-	-	(246,422)
Support services - business	87,639	-	-	-	(87,639)
Operations and maintenance	464,092	-	-	-	(464,092)
Student transportation	365,019	-	74,998	-	(290,021)
Support services - central	110,297	-	-	-	(110,297)
Food services	246,357	17,852	116,178	-	(112,327)
Pike Peak BOCES	137,673	-	-	-	(137,673)
Interest expense, unallocated	119,336	-	-	-	(119,336)
Total primary government	<u>\$ 4,369,354</u>	<u>\$ 71,516</u>	<u>\$ 432,947</u>	<u>\$ -</u>	<u>\$ (3,864,891)</u>
<b>General revenues</b>					
Taxes:					
Local property taxes					\$ 1,282,956
Specific ownership taxes					159,244
State equalization					2,584,809
Other state and local sources					140,195
Interest on investments					11,950
Total general revenues					<u>4,179,154</u>
Change in net position					<u>314,263</u>
Net position July 1, 2017, as restated					
Net position June 30, 2018					
					<u>(3,305,865)</u>
					<u>(2,991,602)</u>

The accompanying notes are an integral part of this financial statement

**Hanover School District No. 28**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	General Fund	Food Service Fund	Pupil Activity Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 297,927	\$ 85,243	\$ 27,257	\$ -	\$ -	\$ 410,427
Cash and cash equivalents - restricted	-	-	-	704,117	-	704,117
Cash with county treasurer	12,950	-	-	721	-	13,671
Investments	557,483	-	-	36,391	-	593,874
Property taxes receivable	32,699	-	-	66,859	-	99,558
Grants and intergovernmental accounts receivable	108,241	19,977	-	-	-	128,218
Inventories	-	8,418	-	-	-	8,418
<b>Total Assets</b>	<b>\$ 1,009,300</b>	<b>\$ 113,638</b>	<b>\$ 27,257</b>	<b>\$ 808,088</b>	<b>\$ -</b>	<b>\$ 1,958,283</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Deficit cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	30,480	-	-	-	-	30,480
Accrued salaries and benefits	311,504	15,491	-	-	-	326,995
Accrued compensated absences	31,438	1,610	-	-	-	33,048
Total liabilities	373,422	17,101	-	-	-	390,523
<b>Fund Balances:</b>						
Non-spendable: Inventories	-	8,418	-	-	-	8,418
Spendable, reported in:						
Restricted fund balances:						
TABOR	110,000	-	-	-	-	110,000
Debt service	-	-	-	808,088	-	808,088
Colorado preschool program reserve	21,768	-	-	-	-	21,768
Committed fund balances:						
Special revenue funds	-	88,119	27,257	-	-	115,376
Capital project fund	-	-	-	-	-	-
Unassigned fund balance:						
General fund	504,110	-	-	-	-	504,110
Total fund balances	635,878	96,537	27,257	808,088	-	1,567,760
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,009,300</b>	<b>\$ 113,638</b>	<b>\$ 27,257</b>	<b>\$ 808,088</b>	<b>\$ -</b>	<b>\$ 1,958,283</b>

The accompanying notes are an integral part of this financial statement

**Hanover School District No. 28**  
**Reconciliation of Governmental Funds Balance Sheet To**  
**Statement of Net Position**  
**June 30, 2018**

Governmental funds total fund balances	\$	1,567,760
Add:		
Capital assets used in government activities are not considered current financial resources and, therefore, not reported in the governmental funds. reported in the governmental funds.		14,281,166
Deferred outflows from pension liability and OPEB liability		4,896,132
Deduct:		
Accumulated depreciation is not recognized in the governmental funds because capital assets are expensed at the time of acquisition.		(6,838,592)
Long-term liabilities for general obligation debt (\$7,380,000 from series 2010 refunding) are not due and payable in the current period and, therefore, not reported in the funds. reported in the funds.		(4,095,000)
Deferred inflows from pension liability and OPEB liability		(584,117)
Net pension liability		(11,649,952)
Net OPEB liability		(266,008)
Bank notes payable		(293,679)
Accrued interest payable		(9,312)
Government activities net position	<u>\$</u>	<u>(2,991,602)</u>

The accompanying notes are an integral part of this financial statement

**Hanover School District No. 28**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances - Governmental Funds**  
**Fiscal year ended June 30, 2018**

	General Fund	Food Service Fund	Pupil Activity Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
<b>Revenues</b>						
Local sources	\$ 672,322	\$ 17,852	\$ 53,664	\$ 869,111	\$ -	\$ 1,612,949
State sources	2,834,135	3,083	-	-	-	2,837,218
Federal sources	120,355	113,095	-	-	-	233,450
Total revenues	<u>3,626,812</u>	<u>134,030</u>	<u>53,664</u>	<u>869,111</u>	<u>-</u>	<u>4,683,617</u>
<b>Expenditures</b>						
Current:						
Regular instruction	1,551,701	-	-	-	-	1,551,701
Cocurricular activities	106,597	-	71,189	-	-	177,786
Student services	54,801	-	-	-	-	54,801
Instructional staff	35,584	-	-	-	-	35,584
General administration	218,521	-	-	-	-	218,521
School administration	229,725	-	-	-	-	229,725
Support services - business	79,683	-	-	-	-	79,683
Operations and maintenance	498,103	-	-	-	182,749	680,852
Student transportation	330,301	-	-	-	25,060	355,361
Support services - central	109,332	-	-	965	-	110,297
Food service operations	-	228,752	-	-	-	228,752
Pikes Peak BOCES	137,673	-	-	-	-	137,673
District-wide facility acquisitions	-	-	-	-	-	-
Debt service:						
Principal retirements	-	-	-	625,000	23,637	648,637
Interest and fiscal charges	-	-	-	118,000	3,902	121,902
Total expenditures	<u>3,352,021</u>	<u>228,752</u>	<u>71,189</u>	<u>743,965</u>	<u>235,348</u>	<u>4,631,275</u>
Excess(deficiency) of revenues over(under)	274,791	(94,722)	(17,525)	125,146	(235,348)	52,342
<b>Expenditures</b>						
Other financing sources (uses)						
Proceeds from issuance of bank loan	-	-	-	-	205,244	205,244
Transfer in	-	118,316	26,975	-	30,104	175,395
Transfer (out)	(60,434)	-	-	(114,961)	-	(175,395)
Total other financing sources (uses)	<u>(60,434)</u>	<u>118,316</u>	<u>26,975</u>	<u>(114,961)</u>	<u>235,348</u>	<u>205,244</u>
Net change in fund balances	214,357	23,594	9,450	10,185	-	257,586
Fund balances at beginning of year	421,521	72,943	17,807	797,903	-	1,310,174
Fund balances at end of year	<u>\$ 635,878</u>	<u>\$ 96,537</u>	<u>\$ 27,257</u>	<u>\$ 808,088</u>	<u>\$ -</u>	<u>\$ 1,567,760</u>

The accompanying notes are an integral part of this financial statement

**Hanover School District No. 28**  
**Reconciliation of Revenues, Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2018**

Governmental funds changes in fund balances	\$	257,586
 Add:		
Government 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 outlay reported as an expenditure in the governmental funds functions.		268,044
Principal retirement of District's long-term debt results in a reduction of accumulated resources on the fund financial statements. The government-wide statements show these reductions against the long-term liabilities.		648,637
 Deduct:		
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.		(334,741)
Government funds report pension expenses as expenditures when paid. Pension obligations in the statement of activities is allocated and expensed for future pension costs.		(322,586)
The issuance of long-term debt provides current financial resources to governmental funds - debt issued or incurred:		
Change in accrued interest payable		2,567
Proceeds from issuance of bank note payable		(205,244)
 Governmental activities change in net position	 <u>\$</u>	 <u>314,263</u>

The accompanying notes are an integral part of this financial statement

**HANOVER SCHOOL DISTRICT NO. 28**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Note 1 - **Summary of Significant Accounting Policies**

The Hanover School District, No. 28 (the District) was formed in 1962 encompassing approximately 185 square miles of southern El Paso County, Colorado. The District operates under an elected Board of Education with five members and provides educational services to approximately 250 students.

The District is the lowest level of government, which is considered to be financially accountable over all activities related to public school education within its boundaries of El Paso County, Colorado. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

**Reporting Entity**

Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*" (GASB No. 14) describes the financial reporting entity as it relates to governmental accounting. According to this Statement, the financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations whose exclusion from the reporting entity's financial statements would cause those statements to be misleading or incomplete. Any organizations that can be described by these last two items are included with the primary government in the financial statements as component units.

The District is not included in any other governmental "reporting entity" as defined in GASB No. 14. As required by accounting principles generally accepted in the USA, these basic financial statements present the District (the primary government) and its component units. The District has no component units, as it is not financially accountable for any other organization.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those

that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. General revenues consist of taxes and others sources not described above.

Separate financial statements are provided for governmental funds. Major individual governmental funds (General Fund, Food Service Fund, Designated Purpose Grant Fund, Debt Service Fund, Pupil Activity Fund and Capital Project Fund) are reported as separated columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases net current position and unreserved fund balance as measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

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.

All Governmental fund types use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected with 60 days after year-end.

Property and automotive ownership taxes are reported as receivable when levied and as revenues when due for collection in the following year and determined to be available.

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

### **Fund Accounting**

The accounts of the District are organized on the basis of fund, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and means by which spending activities are controlled. The major funds presented in the accompanying basic financial statements are as follows:

- **Major Governmental Funds**
  1. General Fund – the general operating fund of the District; used to account for all resources that are not required legally or by sound financial management to be accounted for in another fund.
  2. Debt Service Fund - used to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.
  3. Pupil Activity (Special Revenue Fund) – used to account for the specific revenue sources that are committed to be used in various student athletic and co-curricular organizations.
  4. Food Service Fund (Special Revenue Fund) – used to account for specific revenue sources that are committed to be used for food services.
  5. Capital Project Fund – is used to account for revenues and expenditures related to the District's construction, capital improvements and bus purchases.

### **Cash and Cash Equivalents**

Cash of some funds are pooled into common pooled accounts in order to maximize investment opportunities. An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents". Negative balances incurred in pooled cash at year-end are treated as a liability of that fund.

### **Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. No amounts were determined to be uncollectable at June 30, 2018. Property taxes levied in the current year but not received at year-end are identified as property taxes receivable and are presented net of an allowance for uncollectable taxes.

### **Investments**

The District's investments consist of short-term maturities with Colotrust where the carrying value approximates fair market value.

### **Inventories**

Inventories recorded in the Food Service Fund consist of purchased and donated commodities. Purchased inventories are stated at average cost. 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.

### **Deferred Outflows/Inflows of Resources**

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

### **Capital Assets**

Capital assets, which include property, vehicles and equipment, are utilized for general District operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable government or business-type activities columns in the government-wide financial statements.

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the government fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The District does not capitalize interest on the construction of capital assets.

The monetary threshold for capitalization of assets is \$1,000. The District's capital assets are depreciated using the straight-line method over the estimated useful lives of the fixed assets. Depreciation of all capital assets used by the proprietary fund is charged as an expense against their operations. Estimate useful lives are:

Vehicles	8 years
Furniture, fixtures and equipment	5 to 20 years
Buildings and improvements	20 to 50 years

### **Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. The District records long-term debt of governmental funds at the face value. The District's general obligation bonds are serviced from property taxes and other revenues of the Debt Service Fund.

### **Compensated Absences**

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick pay benefits, which will be paid to employees upon separation from District service. A liability for these amounts is reported in governmental funds only if they have matured or have been earned. Vested or accumulated vacation leave of proprietary funds is recorded as expense and liability of these funds as the benefits accrue to employees.

### **Budgets and Budgeting Accounting**

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

1. Budgets are required by state law for all funds. Prior to April 1, the District submits to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is adopted by formal resolution of the Board.
4. Expenditures may not legally exceed appropriations at the fund level. The District is authorized to transfer budgeted amounts between departments within any fund; however, the Board must approve any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Fund.
6. Budgets for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

### **Fund Equity**

Net Position/Fund Balances - In the government-wide financial statements and for the proprietary fund statements, net positions are either shown as invested in capital assets net of related debt, with these assets essentially being nonexpendable; restricted when constraints placed on the net positions are externally imposed; or unrestricted.

For the governmental fund presentation, fund balances that are classified as “nonspendable” include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example inventories and prepaid amounts.

Fund balance should be reported as “restricted” when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Education, should be reported as “committed” fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as “assigned” fund balance. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

For the classification of fund and net position balances, the District considers an expenditure to be made from the most restrictive classification first, when more than one classification is available.

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restrictions of the fund balance for the District are recorded up to the maximum equity available in the fund balance and consist of:

Restricted for Debt Service – These reserves are established for amounts set aside for payments of principal and interest on the bonds payable. Recorded reserves at June 30, 2018 are \$808,088.

### **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements in those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

## **Accounting Estimates**

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

## Note 2 - **Deposits and Investments**

### **Deposits**

The District's investment policies are approved by the Board of Education and governed by Colorado statute. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds. The pool is to be maintained by another financial institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The District is authorized by Colorado State statutes to invest in the following:

- Obligations of the United States government and certain government agencies securities
- Certain international agency securities
- General obligation and revenue bonds of governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Guaranteed investment contracts
- Checking with interest savings accounts

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year-end the District's bank balance was \$1,150,921. Of the bank balance, \$629,608 was covered by FDIC insurance, and \$521,313 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institution through PDPA. The District's carrying balance as of June 30, 2018 was \$1,114,544 of which \$704,117 is restricted within the Debt Service Fund for future debt service requirements. The difference between the District's carrying balance and bank balance is outstanding checks and deposits in transit.

### **Investments**

The District had invested \$593,874 (fair value) in the Colorado Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. The Colorado Division of

Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Interest Rate Risk – State statutes limits investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk – State law limits investments to those with specified ratings, as provided by nationally recognized statistical rating organizations, depending on the investment type.

Note 3 - **Property Tax**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 15 and are payable in full by April 30 or in two equal installments due February 28 and June 15 of the following year. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are accounted for in the General and Debt Service Funds. Property taxes at the fund level are recorded as receivable and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

Note 4 - **Capital Assets**

A summary of changes in capital assets follows:

<u>Governmental Activities</u>				
	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
Non-depreciable assets:				
Land	\$ 227,585	\$ -	\$ -	\$ 227,585
Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-depreciable	<u>\$ 227,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,585</u>

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Depreciable Assets:				
Buildings & Sites	\$ 11,977,281	\$ -	\$ -	\$ 11,977,281
Equipment Furniture And Fixtures	1,093,152	243,049	-	1,366,201
Vehicles	<u>715,104</u>	<u>24,995</u>	-	<u>740,099</u>
Total Depreciable Assets	<u>\$ 13,785,537</u>	<u>\$ 268,044</u>	<u>\$ -</u>	<u>\$ 14,053,581</u>
Less accumulated depreciation for:				
Buildings & Sites	\$ 4,909,017	\$ 257,102	\$ -	\$ 5,166,119
Equipment Furniture And Fixtures	949,662	61,830	-	1,011,492
Vehicles	<u>645,172</u>	<u>15,809</u>	-	<u>660,981</u>
Total Accumulated Depreciation	<u>\$ 6,503,851</u>	<u>\$ 334,741</u>	<u>\$ -</u>	<u>\$ 6,838,592</u>
Total Capital Assets, Net	<u>\$ 7,509,271</u>	<u>\$ (66,697)</u>	<u>\$ -</u>	<u>\$ 7,442,574</u>

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

<u>Governmental activities:</u>	
Regular instruction	<u>\$ 334,741</u>

Note 5 - **Long-Term Debt**

The following is a summary of long-term debt:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
G.O. Refunding Bonds-2010	\$ 4,720,000	\$ -	\$ 625,000	\$ 4,095,000
Totals G.O Bonds	<u>4,720,000</u>	<u>-</u>	<u>625,000</u>	<u>4,095,000</u>
Bank Note Payable	<u>112,072</u>	<u>205,244</u>	<u>23,637</u>	<u>293,679</u>
Total Long-Term Debt	<u>\$ 4,832,072</u>	<u>\$ 205,244</u>	<u>\$ 648,637</u>	<u>\$ 4,388,679</u>

Amount of General Obligation Bonds due within one year \$ 645,000

Amount of Bank Loan Payable due within one year \$ 40,767

In October of 2010, the District issued \$7,380,000 in general obligation refunding bonds for the purpose of advance refunding a portion of the District's outstanding General Obligation Bonds, series 2003 and a portion of the District's outstanding General Obligation Bonds, series 2004. Principal payments are due annually on December 1, through 2023. Interest payments are due semi-annually on June 1 and December 1, with interest accruing at rates ranging from 2.0% to 3.0%.

The annual and summary of debt service requirements of the 2010 General Obligation Refunding Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 645,000	\$ 104,494	\$ 749,494
2020	655,000	89,050	744,050
2021	670,000	72,069	742,069
2022	690,000	53,788	743,788
2023	705,000	33,538	738,538
2023-2024	<u>730,000</u>	<u>11,836</u>	<u>741,836</u>
Total	<u>\$ 4,095,000</u>	<u>\$ 364,325</u>	<u>\$ 4,459,325</u>

In August of 2015, the District borrowed \$46,762 from the Kansas State Bank to purchase a bus. Principal and interest payments are due annually on June 30, through 2020, with interest accruing at rates of 3.02%.

The annual and summary of loan payments of the Bank loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,626	\$ 590	\$ 10,216
2020	<u>9,918</u>	<u>298</u>	<u>10,216</u>
Total	<u>\$ 19,544</u>	<u>\$ 888</u>	<u>\$ 20,432</u>

In September of 2014, the District borrowed \$44,581 from the Kansas Bank of Manhattan to purchase a bus. Principal and interest payments are due annually on September 5, through 2018, with interest accruing at rates of 2.70%.

The annual and summary of loan payments of the Bank loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>11,594</u>	<u>313</u>	<u>11,907</u>
Total	<u>\$ 11,594</u>	<u>\$ 313</u>	<u>\$ 11,907</u>

In August of 2016, the District borrowed \$60,300 from the Farmers State Bank of Calhan to purchase energy savings equipment. Principal and interest payments are due annually on August 3, through 2031, with interest accruing at a rate of 4.00%.

The annual and summary of loan payments of the Bank loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,123	\$ 2,292	\$ 5,415
2020	3,248	2,167	5,415
2021	3,378	2,037	5,415
2022	3,513	1,902	5,415
2023	3,654	1,761	5,415
2024-2031	<u>40,381</u>	<u>8,524</u>	<u>48,905</u>
Total	<u>\$ 57,297</u>	<u>\$ 18,683</u>	<u>\$ 75,980</u>

In December of 2017, the District borrowed \$22,495 from the Kansas StateBank to purchase a 2017 Ford Transit. Principal and interest payments are due annually on December 5, through 2022, with interest accruing at a rate of 4.00%.

The annual and summary of loan payments of the Bank loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,154	\$ 898	\$ 5,052
2020	4,320	732	5,052
2021	4,492	560	5,052
2022	4,672	380	5,052
2023	<u>4,857</u>	<u>195</u>	<u>5,052</u>
Total	<u>\$ 22,495</u>	<u>\$ 2,765</u>	<u>\$ 25,260</u>

In January of 2018, the District borrowed \$182,749 from the Farmers State Bank of Calhan to purchase energy savings equipment. Principal and interest payments are due annually on August 3, through 2032, with interest accruing at a rate of 4.69%.

The annual and summary of loan payments of the Bank loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 12,270	\$ 4,478	\$ 16,748
2020	8,970	7,778	16,748
2021	9,359	7,389	16,748
2022	9,806	6,942	16,748
2023	10,253	6,495	16,748
2024	10,721	6,027	16,748
2025-2032	<u>121,370</u>	<u>29,358</u>	<u>150,728</u>
Total	<u>\$ 182,749</u>	<u>\$ 68,467</u>	<u>\$ 251,216</u>

Note 6 - **Defined Benefit Pension Plan**

**Summary of Significant Accounting Policies**

*Pensions.* The District participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the

SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled Changes between the measurement date of the net pension liability and June 30, 2018.

### **General Information about the Pension Plan**

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

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

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:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Employer Contribution Rate <sup>1</sup>	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) <sup>1</sup>	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF <sup>1</sup>	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	5.50%	5.00%
Total Employer Contribution Rate to the SCHDTF <sup>1</sup>	19.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the District were \$339,574 for the year ended June 30, 2018.

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

At June 30, 2018 the District reported a liability of \$11,649,952 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 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 0.0360273096%, which was a increase of 0.0016942614 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$325,330. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 308,313	\$ 46,365
Changes of assumptions or other inputs	\$ 3,507,479	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ 543,746	\$ 457,505
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 356,515	\$ 75,797
Contributions subsequent to the measurement date	\$ 159,900	N/A
Total	\$ 4,875,953	\$ 579,667

\$159,900 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a

reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30, 2018:</b>	
June 30, 2019	\$ 2,162,679
June 30, 2020	\$ 1,665,470
June 30, 2021	\$ 422,615
June 30, 2022	\$ (114,377)
June 30, 2023	\$ -
Thereafter	\$ -

*Actuarial assumptions.* The total pension liability in the December 31, 2015 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	3.90 – 9.70 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

Actuarial cost method	Entry age
Price inflation	2.40 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
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent

PERA Benefit Structure hired after 12/31/06  
(ad hoc, substantively automatic)

Financed by the  
Annual Increase Reserve

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

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

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

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

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

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

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

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

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

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non US Fixed	1.84%	0.60%
Emerging Market Bonds	0.46%	3.90%
Real Estate	8.50%	4.90%
Opportunity Fund	6.0%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

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

*Sensitivity of the District proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$14,096,442	\$11,649,952	\$9,203,462

*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 <Insert Employer Year-End>.

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.
- 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.

Note 7 - **Defined Benefit Other Post Employment (OPEB) Plan**

**Summary of Significant Accounting Policies**

*OPEB.* The District participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to 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.

## **General Information about the OPEB Plan**

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

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

#### *DPS Benefit Structure*

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$18,449 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$266,008 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to

December 31, 2017. The District proportion of the net OPEB liability was based on the District's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF .

At December 31, 2017, the District's proportion was 0.0204684165 percent, which was an increase of 0.0009531042 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense (credit) of (\$2,744). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,258	\$ -
Changes of assumptions or other inputs	\$ -	\$ -
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 4,450
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 10,328	\$ -
Contributions subsequent to the measurement date	\$ 8,593	N/A
<b>Total</b>	<b>\$ 20,179</b>	<b>\$ 4,450</b>

\$8,593 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ended June 30, 2018:</b>	
June 30, 2019	\$ 1,163
June 30, 2020	\$ 1,163
June 30, 2021	\$ 1,164
June 30, 2022	\$ 1,164
June 30, 2023	\$ 2,276
Thereafter	\$ 206

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	3.50percent
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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

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

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

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

2023	5.00%	4.25%
2024+	5.00%	4.25%

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

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

Healthy, post-retirement mortality assumptions for the 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.

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.

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	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non US Fixed	1.84%	0.60%
Emerging Market Bonds	0.46%	3.90%
Real Estate	8.50%	4.90%
Opportunity Fund	6.0%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend	4.00%	5.00%	6.00%
Initial Medicare Part A trend	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 212,806	\$ 266,008	\$ 319,210

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 303,249	\$ 266,008	\$ 228,767

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

Note 8 - **Defined Contribution Pension Plan**

*Plan Description.* The (CSSDTF) members of the Hanover School District No. 28 may voluntarily contribute to the Voluntary Investment Program 401(k) Plan, an Internal Revenue Code Section 401(k) defined contribution plan administered by

PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

*Funding Policy.* The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$18,000 in 2017 and \$18,500 in 2018). Beginning January 1, 2001, an employer match was legislated, which would match 100% of a member's eligible tax deferred retirement program contributions limited by 3.0% in 2002, 2.0% in 2003 and 1.0% in 2004 per payroll of the PERA-includable salary. Effective July 1, 2004, the State Legislature rescinded the matchmaking provision of this plan. The 401(k) Plan member contributions from the District for the year ended June 30, 2018 were \$6,485. There were no employer contributions to the 401(k) Plan from the District for the year ended June 30, 2018.

Note 9 - **Joint Ventures**

The District participates in with the Pikes Peak Board of Cooperative Educational Services (BOCES). The District has one member on the Board, which is selected by participating districts. This Board has final authority for all budgeting and financing of the joint venture. The District's June 30, 2018 contribution amounted to \$137,673.

The District's share of annual contributions to the joint venture was approximately 8% for the year ended June 30, 2018. Complete financial statements for BOCES can be obtained at their administrative offices at 2883 South Circle Drive, Colorado Springs, Colorado 80906.

Note 10- **Auditor's Integrity Report**

The Colorado Department of Education requires the inclusion of the Auditor's Integrity Report as a supplemental schedule to the audited financial statements. The report is based on a prescribed basis of accounting that demonstrates compliance with the financial policies and procedures of the Colorado Department of Education.

Note 11- **Risk Management**

The District participates in Colorado School District Self-Insurance Pool. The pool is a separate legal entity established by the member school districts pursuant to the provisions of Colorado Revised Statute and the Colorado Constitution. In 1985, the District Board approved a resolution that authorized the District to participate in the pool. The District has participated each year since then.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability or loss to the limit of the financial resources of the Pool.

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverage at reasonable cost. All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members.

The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the unit.

Complete financial statements for the Pool can be obtained at their offices.

The District is exposed to various risks of loss related to torts, thefts of damage to, or destruction of assets; errors or omissions; injuries to volunteers; or acts of God. The District maintains commercial insurance coverage for general liability, workers compensation, property, vehicle damage and liability, umbrella, management liability and public official bond. The District did not have any claim settlements in excess of coverage for the last three years.

Note 12 - **Accrued Teachers' Salaries and Employee Benefits**

Teachers' contracts are for a nine or ten-month period; but are paid in twelve equal payments. At the end of the fiscal year an accrual exists for the difference between the amounts due on the contract and the amounts paid.

Note 13 - **Interfund Transactions**

The following identifies cash transfers from the General Fund to the Food Service Fund, Pupil Activity Fund, Capital Project Fund and Debt Service Fund to The General Fund at June 30, 2018:

<u>Fund</u>	<u>Transfer from</u>	<u>Transfer to</u>
General Fund	\$ 60,434	
Food Service Fund		\$ 118,316
Pupil Activity Fund		\$ 26,975
Debt Service Fund	\$ 114,961	
Capital Project Fund		\$ 30,104

Note 14 - **Operating Leases**

The District entered into an operating lease with *Key Equipment and Leaf Financial* for copiers. Monthly rentals are \$477. Lease expense as of June 30, 2018 was \$5,724. The minimum annual rental commitments under these leases are as follows:

Year ended June 30:	
2019	5,724
2020	5,724
2021	5,724
2022	<u>2,862</u>
Total	<u>\$ 20,034</u>

Note 15 - **Tax, Spending, and Debt Limitations**

In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments, including school districts.

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

to 1992, revenues in excess of the District's "spending limit" must be refunded unless voters approve the retainage of such excess revenue. TABOR generally requires voter approval for any new tax, tax increases, and new debt.

On November 7, 2000, the voters of the district approved a referendum for Hanover School District No. 28. The voters authorized the district to collect, retain and expend all revenues and other funds collected during 2002 and each subsequent year from any source notwithstanding the limitations of Article X, section 20 of the Colorado constitution, effective January 1, 2002, provided however, that no property tax mill levy shall be increased at any time nor shall any new tax be imposed without the prior approval of the voters of Hanover School District No. 28. TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future years. TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary and fringe benefit increases. These reserves are to be three percent or more of fiscal year spending (excluding bonded debt service). As of June 30, 2018, for budgetary purposes the District reserved \$110,000 in the General Fund.

Note 16- **Evaluation of Subsequent Events**

The District's management has evaluated subsequent events through February 20, 2019 (the date of the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Note 17- **Contingencies**

State of Colorado – Any disallowed per pupil funding or disallowed expenditures as a result of non-compliance with the states grants and educational regulations, including amounts already collected, may constitute a liability to the District.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government and State of Colorado. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 18- **Expenditures in Excess of Appropriations**

The District overspent its General Fund by \$33,979, its Food Service Fund by \$2,908, its Debt Service Fund by \$965 and the Capital Project Fund by \$30,714.

Note 19 - **Restatement of Net Position**

The District's beginning net position within the governmental activities has been restated due to a prior year OPEB obligation due to the implementation of GASB 75. Total restatement was a \$253,023 decrease.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**Hanover School District No. 28**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Local sources				
Property taxes	\$ 404,991	\$ 378,679	\$ 417,729	\$ 39,050
Specific ownership taxes	85,000	131,000	159,244	28,244
Delinquent taxes and interest	150	150	1,770	1,620
Other local sources	34,570	34,570	87,283	52,713
Interest on investments	80	80	6,296	6,216
Total local sources	<u>524,791</u>	<u>544,479</u>	<u>672,322</u>	<u>127,843</u>
State sources				
State equalization	2,619,189	2,588,188	2,584,809	(3,379)
Transportation	79,500	74,822	74,998	176
Other state sources	170,996	174,396	174,328	(68)
Total state sources	<u>2,869,685</u>	<u>2,837,406</u>	<u>2,834,135</u>	<u>(3,271)</u>
Federal sources				
Title I grant	36,748	42,092	42,095	3
Reap revenue	-	59,000	53,152	(5,848)
Other federal grants	16,123	20,470	25,108	4,638
Total federal sources	<u>52,871</u>	<u>121,562</u>	<u>120,355</u>	<u>(1,207)</u>
Total revenues	<u>3,447,347</u>	<u>3,503,447</u>	<u>3,626,812</u>	<u>123,365</u>
Expenditures				
Instruction and supporting services				
Regular instruction	1,414,919	1,627,055	1,551,701	75,354
Cocurricular activities	90,097	90,097	106,597	(16,500)
Student services	51,446	49,957	54,801	(4,844)
Instructional staff	28,388	34,231	35,584	(1,353)
General administration	200,166	210,602	218,521	(7,919)
School administration	189,076	199,051	229,725	(30,674)
Support services - business	67,933	54,077	79,683	(25,606)
Operations and maintenance	471,294	493,527	498,103	(4,576)
Student transportation	307,401	294,226	330,301	(36,075)
Support services - central	117,219	117,219	109,332	7,887
Facility acquisitions	-	-	-	-
Pikes Peak BOCES	136,000	148,000	137,673	10,327
Contingency	-	-	-	-
Total instruction and supporting services	<u>3,073,939</u>	<u>3,318,042</u>	<u>3,352,021</u>	<u>(33,979)</u>
Excess(deficiency) of revenues over expenditures	<u>373,408</u>	<u>185,405</u>	<u>274,791</u>	<u>89,386</u>
Other financing sources (uses)				
Transfer out	(333,668)	(99,300)	(60,434)	38,866
Total other financing sources (uses)	<u>(333,668)</u>	<u>(99,300)</u>	<u>(60,434)</u>	<u>38,866</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>39,740</u>	<u>86,105</u>	<u>214,357</u>	<u>128,252</u>
Fund balances at beginning of year	479,888	421,521	421,521	-
Fund balances at end of year	<u>\$ 519,628</u>	<u>\$ 507,626</u>	<u>\$ 635,878</u>	<u>\$ 128,252</u>

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Food Service Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Food sales	\$ 13,350	\$ 13,350	\$ 17,852	\$ 4,502
Other local sources	-	-	-	-
Total local sources	<u>13,350</u>	<u>13,350</u>	<u>17,852</u>	<u>4,502</u>
State sources				
Other state sources	-	-	3,083	3,083
Total state sources	<u>-</u>	<u>-</u>	<u>3,083</u>	<u>3,083</u>
Federal sources				
National breakfast and lunch program	100,000	100,000	97,549	(2,451)
Other federal grants	-	-	15,546	15,546
Total federal sources	<u>100,000</u>	<u>100,000</u>	<u>113,095</u>	<u>13,095</u>
Total revenues	<u>113,350</u>	<u>113,350</u>	<u>134,030</u>	<u>20,680</u>
Expenditures				
Food service operations				
Salaries and benefits	126,319	126,319	120,866	5,453
Purchased food	83,000	83,000	84,252	(1,252)
Purchase services	7,925	7,925	6,618	1,307
Supplies	4,950	4,950	681	4,269
Other	3,650	3,650	16,335	(12,685)
Contingency	-	-	-	-
Total food service operations	<u>225,844</u>	<u>225,844</u>	<u>228,752</u>	<u>(2,908)</u>
Excess(deficiency) of revenues over expenditures	<u>(112,494)</u>	<u>(112,494)</u>	<u>(94,722)</u>	<u>17,772</u>
Other financing sources (uses)				
Transfer in	120,739	49,300	118,316	69,016
Total other financing sources (uses)	<u>120,739</u>	<u>49,300</u>	<u>118,316</u>	<u>69,016</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>8,245</u>	<u>(63,194)</u>	<u>23,594</u>	<u>86,788</u>
Fund balances at beginning of year	30,401	72,943	72,943	-
Fund balances at end of year	<u>\$ 38,646</u>	<u>\$ 9,749</u>	<u>\$ 96,537</u>	<u>\$ 86,788</u>

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Pupil Activity Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Student activities	\$ 40,000	\$ 40,000	\$ 53,664	\$ 13,664
Interest on investments	-	-	-	-
Total local sources	<u>40,000</u>	<u>40,000</u>	<u>53,664</u>	<u>13,664</u>
Expenditures				
Current:				
Cocurricular activities	72,200	72,200	71,189	1,011
Contingency	-	-	-	-
Total expenditures	<u>72,200</u>	<u>72,200</u>	<u>71,189</u>	<u>1,011</u>
Excess(deficiency) of revenues over expenditures	<u>(32,200)</u>	<u>(32,200)</u>	<u>(17,525)</u>	<u>14,675</u>
Other financing sources (uses)				
Transfer in	32,200	50,000	26,975	(23,025)
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>32,200</u>	<u>50,000</u>	<u>26,975</u>	<u>(23,025)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>-</u>	<u>17,800</u>	<u>9,450</u>	<u>(8,350)</u>
Fund balances at beginning of year	23,205	17,807	17,807	-
Fund balances at end of year	<u>\$ 23,205</u>	<u>\$ 35,607</u>	<u>\$ 27,257</u>	<u>\$ (8,350)</u>

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**Last 10 Fiscal Years**

	2017	2016	2015	2014
District' proportion (percentage) of the collective net pension liability	0.0360273096%	0.0343330482%	0.0343726251%	0.0374457479%
District's proportionate share of the collective pension liability	11,649,952	10,222,276	5,257,050	5,075,157
Covered payroll	1,661,721	1,540,928	1,497,960	1,568,709
District's proportionate share of the net pension liability as a percentage of it's covered payroll	14.26%	15.07%	28.49%	30.91%
Plan fiduciary net pension as a percentage of the total pension liability	43.96%	43.10%	59.20%	62.80%

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

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Schedule of Contributions and Related Ratios - Pensions**  
**Last 10 Fiscal Years**

As of June 30,	2018	2017	2016	2015
Statutorily required contributions	\$ 339,574	\$ 293,385	\$ 276,196	\$ 248,362
Contributions in relation to the statutorily required contributions	<u>339,574</u>	<u>293,385</u>	<u>276,196</u>	<u>248,362</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	1,798,628	1,511,754	1,471,904	1,387,497
Contribution as a percentage of covered payroll	18.88%	19.41%	18.76%	17.90%

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Schedule of the District's Proportionate Share of the Net OPEB Liability**  
**Last 10 Fiscal Years**

	2017
District' proportion (percentage) of the collective net pension liability	0.0204684165%
District's proportionate share of the collective OPEB liability	266,008
Covered payroll	1,661,721
District's proportionate share of the net OPEB liability as a percentage of covered payroll	624.69%
Plan fiduciary net pension as a percentage of the total OPEB liability	43.96%

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

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Schedule of OPEB Contributions and Related Ratios**  
**Last 10 Fiscal Years**

	<b>2018</b>
As of June 30,	
Statutorily required contributions	\$ 18,346
Contributions in relation to the statutorily required contributions	<u>18,346</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	1,798,628
Contribution as a percentage of covered payroll	1.02%

See the accompanying Independent Auditors' Report

**OTHER SUPPLEMENTARY  
INFORMATION**

**Hanover School District No. 28**  
**Debt Service Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources				
Property taxes	\$ 758,782	\$ 841,530	\$ 859,603	\$ 18,073
Delinquent taxes and interest	-	-	3,854	3,854
Interest on investments	-	-	5,654	5,654
Total local sources	<u>758,782</u>	<u>841,530</u>	<u>869,111</u>	<u>27,581</u>
Expenditures				
Debt Service:				
Interest expense	134,150	118,000	118,000	-
Principal	610,000	625,000	625,000	-
Other	-	-	965	(965)
Contingency	-	-	-	-
Total debt service	<u>744,150</u>	<u>743,000</u>	<u>743,965</u>	<u>(965)</u>
Excess(deficiency) of revenues over expenditures	<u>14,632</u>	<u>98,530</u>	<u>125,146</u>	<u>26,616</u>
Other financing sources (uses)				
Transfer in (out)	84,188	(165,000)	(114,961)	50,039
Premium on refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	<u>84,188</u>	<u>(165,000)</u>	<u>(114,961)</u>	<u>50,039</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>98,820</u>	<u>(66,470)</u>	<u>10,185</u>	<u>76,655</u>
Fund balances at beginning of year	714,589	797,903	797,903	-
Fund balances at end of year	<u>\$ 813,409</u>	<u>\$ 731,433</u>	<u>\$ 808,088</u>	<u>\$ 76,655</u>

See the accompanying Independent Auditors' Report

**Hanover School District No. 28**  
**Capital Projects - Building Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other local sources	\$ -	\$ -	\$ -	\$ -
Interest on investments	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current:				
Supporting services	91,344	119,000	207,809	(88,809)
Debt service	29,000	85,634	27,539	58,095
Contingency	-	-	-	-
Total expenditures	<u>120,344</u>	<u>204,634</u>	<u>235,348</u>	<u>(30,714)</u>
Excess(deficiency) of revenues over expenditures	<u>(120,344)</u>	<u>(204,634)</u>	<u>(235,348)</u>	<u>(30,714)</u>
Other financing sources (uses)				
Proceeds from issuance of bank loan	91,344	204,634	205,244	610
Transfer in	29,000	-	30,104	30,104
Total other financing sources (uses)	<u>120,344</u>	<u>204,634</u>	<u>235,348</u>	<u>30,714</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report

**COLORADO DEPARTMENT OF EDUCATION**

**AUDITOR'S INTEGRITY REPORT**



**Colorado Department of Education**  
**Auditors Integrity Report**  
 District: 1070 - HANOVER 28  
 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
<b>Governmental</b>							
10 General Fund	399,103		3,497,690		3,282,763		614,110
18 Risk Mgmt Sub-Fund of General Fund	0		0		0		0
19 Colorado Preschool Program Fund	22,337		68,689		69,258		21,768
<b>Sub-Total</b>	<b>421,520</b>		<b>3,566,379</b>		<b>3,352,021</b>		<b>635,878</b>
11 Charter School Fund	0		0		0		0
20,25-23 Special Revenue Fund	0		0		0		0
06 Supplemental, Cap Const, Tech, Main Fund	0		0		0		0
21 Food Service Spec Revenue Fund	72,943		252,346		220,752		96,537
22 Govt Designated-Purpose Grants Fund	0		0		0		0
23 Pupil Activity Special Revenue Fund	17,808		80,638		71,189		27,257
24 Fruit Day Kindergarten Mill Levy Override	0		0		0		0
25 Transportation Fund	0		0		0		0
31 Bond Redemption Fund	797,903		754,159		743,965		808,068
39 Certificate of Participation (C.C.P.) 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 P Objects Fund	0		235,348		235,348		0
46 Supplemental, Cap Const, Tech, Main Fund	0		0		0		0
<b>Totals</b>	<b>1,310,173</b>		<b>4,888,862</b>		<b>4,631,274</b>		<b>1,567,761</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	0		0		0		0
<b>Totals</b>	<b>0</b>		<b>0</b>		<b>0</b>		<b>0</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>

FINAL