

Lake County School District R-1
Leadville, Colorado

FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

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**INDEPENDENT AUDITOR'S REPORT**

December 31, 2018

To the Board of Education
Lake County School District R-1
Leadville, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County School District R-1 (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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Board of Education
Lake County School District R-1

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County School District R-1, as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As noted in Footnote M to the financial statements, the beginning fund balance of the Head Start fund was restated for a misstatement in receivables and beginning net position was restated for the District for a misstatement of pension expense in the prior year. Our opinions are not modified with respect to this matter.

Other Matters***Required Supplementary Information***

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and budget schedules, and the bond and capital reserve budgetary schedules, and the Colorado Department of Education Auditor's Integrity Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary schedules, and the bond and capital reserve budget to actual schedules, the Auditor's Integrity Report, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing



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standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the budgetary schedules, the Auditor's Integrity Report and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Chadwick, Steinkirchner, Davis & Co., P.C.

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

The discussion and analysis of Lake County School District R-1's (the "District") financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements, notes to the financial statements, budgetary comparison schedules and additional supplementary information to broaden their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The District's budget continues to remain fairly constant. Any increases in revenue are used to offset the additional cost of salary and benefits for staff. The District continues to maintain a healthy fund balance in the General Fund. The District budgets sufficient contingencies to cover any unanticipated operational needs.

- For the year ended June 30, 2018 the District's total net position increased by \$5,732,408 to (\$5,991,292). The increase in fund balance was due primarily to a prior period adjustment of \$13,728,774 due to a combination of change in accounting principle and an error in the prior year pension expense. This is discussed in Footnote N to the financial statements.
- The General Fund reported a fund balance of \$3,083,057 as of June 30, 2018, an increase of \$139,802. Of this amount, \$2,667,529, or 86.5% is unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to Lake County School District's basic financial statements. The basic financial statements presented are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. Additional information consists of supplementary information and single audit information.

Government-wide Financial Statements

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

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

Both government-wide financial statements distinguish functions of the District that are principally

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, pupil activities, instructional support, general and school administration, business and central services, and, transportation.

The Government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The District uses seven Governmental Funds. The General Fund is the largest Governmental Fund and encompasses most of the District's revenues and expenditures. The other funds consist of the Designated Grants Fund, the Food Service Fund, the Center Fund, the Head Start Program Fund, the Bond Redemption Fund, and the Capital Reserve Fund. An annual appropriated budget for the District is adopted for each fund. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget. The governmental fund financial statements can be found on pages 14 through 17 of this report.

Fiduciary Fund

The District acts as the agent for assets that belong to others, such as memorials, scholarships and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purpose. These activities are not included in the district-wide financial statements because it cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on page 18 of this report.

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Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

Notes to the Financial Statements

The notes to the financial statements provide additional information that is useful to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-56 of this report.

Required Supplementary Information

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

Supplementary Information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Additionally, budget to actual schedules are presented for all other funds not presented as part of the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows exceeded assets and deferred outflows by \$(5,991,292) at June 30, 2018.

The District's net position includes its \$25,277,505 investment in capital assets net of accumulated depreciation and related debt. The District uses these capital assets to provide educational services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restriction on how they may be used. At June 30, 2018, net position totaling \$1,681,726 was restricted, with \$1,266,198 restricted for debt service, \$59,528 restricted for pre-school and \$356,000 for TABOR emergencies.

For fiscal year 2018, the District's net position increased by \$5,732,408 resulting from a combination of a restatement of prior period net position of \$13,728,774 and an excess of expense over revenues of \$(7,996,366). This balance is made of increases to net position of \$14,814,524 for expense that should have been a deferred outflow in the prior year and \$1,049,594 that decreases net position for a change in accounting principal for the Health Care Trust Fund OPEB. There is also a prior period adjustment recognized in the Head Start fund and in net position for \$36,156 for errors in receivable balances. The excess of expense over revenues is primarily the result of increases in pension costs and depreciation expense on the capital assets.

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

	Governmental Activities		
	2018	Restated 2017	Change
Current Assets	\$ 5,048,363	\$ 4,523,458	\$ 524,905
Restricted Assets	1,191,898	1,162,826	29,072
Capital Assets, Net	34,420,010	35,348,988	(928,978)
Total Assets	40,660,271	41,035,272	(375,001)
Deferred Outflows of Resources	13,099,744	16,896,820	(3,797,076)
Current Liabilities	1,431,607	1,103,599	328,008
Long-term Liabilities	9,218,192	9,695,202	(477,010)
Net Pension Liability	45,171,539	43,717,274	1,454,265
Net OPEB Liability	1,031,526	-	1,031,526
Total Liabilities	56,852,864	54,516,075	2,336,789
Deferred Inflows of Resources	2,898,445	325,193	2,573,252
Net Position			
Net Investment in Capital Assets	25,277,505	25,729,473	(451,968)
Restricted	1,681,726	1,707,209	(25,483)
Unrestricted	(32,950,523)	(24,345,858)	(8,604,665)
Total Net Position	\$ (5,991,292)	\$ 3,090,824	\$ (9,082,116)

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

	Governmental Activities		
	2018	Restated 2017	Change
Program Revenues			
Charges for services	\$ 341,873	\$ 228,744	\$ 113,129
Operating grants	4,264,919	3,570,138	694,781
Capital grants	-	95,504	(95,504)
Total Program Revenues	4,606,792	3,894,386	712,406
General Revenues			
Taxes	6,428,000	6,818,231	(390,231)
Payment in lieu of taxes	154,691	18,624	136,067
State equalization	2,916,414	2,527,840	388,574
Insurance proceeds	23,621	54,061	(30,440)
Investment income	38,463	24,866	13,597
Total General Revenues	9,561,189	9,443,622	117,567
Total Revenues	14,167,981	13,338,008	829,973
Expenses			
Instructional	10,344,330	9,727,347	616,983
Supporting services	8,200,370	7,763,519	436,851
Food service	927,795	-	927,795
Community services	1,236,919	1,368,636	(131,717)
Property	-	293,527	(293,527)
Debt service interest	281,984	296,113	(14,129)
Unallocated depreciation	1,172,674	1,204,037	(31,363)
Total Expense	22,164,072	20,653,179	1,510,893
Change in net position	(7,996,366)	(7,315,171)	(681,195)
Net position, beginning	3,054,668	10,405,995	(7,351,327)
Change in accounting principal	(1,049,594)	(36,156)	(1,013,438)
Net position, beginning, restated	2,005,074	10,369,839	(8,364,765)
Net position, ending	\$ (5,991,292)	\$ 3,054,668	\$ (9,045,960)

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

General Fund

The General Fund is the major operating fund of the District, providing the majority of the resources for the educational and support programs. Revenues for the General Fund totaled \$10,089,682 in fiscal year 2018 compared to \$9,718,382 in fiscal year 2017, an increase of \$371,300 or 3.8%. Expenditures totaled \$9,707,891 compared to \$9,639,643, an increase of \$68,248 or less than 1%.

Revenues

Property Taxes. General Fund property tax revenues decreased \$276,516 to \$5,264,752 or 5.3% due to a decrease in assessed valuation. Property taxes accounted for 52.2% of the District's General Fund revenue.

Specific Ownership Taxes. Specific ownership tax is applied to the fair value of vehicles registered in Colorado. Specific ownership tax increased \$33,972, or 10.0% to \$374,464.

State Equalization. State equalization revenue increased \$388,574 or 13.3% to \$2,916,414 in fiscal year 2018 and accounted for 28.9% of the District's General Fund revenue.

State and Federal Grants. State and federal grants revenue decreased \$104,368 or 11.2% to \$831,426 from \$935,794 in fiscal year 2018 and accounted for 9.7% of the District's General Fund revenue.

Miscellaneous Income. Miscellaneous and other income remained consistent with the prior year.

Other Major Funds.

The Designated Grants Fund is used to maintain separate accounting for federal, state and local grant funded programs, which normally have a different fiscal period than that of the District. Total revenues for the Designated Grants fund were \$1,674,184, which equaled expenditures.

The Bond Redemption Debt Service Fund is used to account for the requirements of the series 2012 general obligation bonds. The primary revenue source for the Bond Redemption Debt Service Fund is a voter approved floating mill levy of 3.369 mills which generated \$778,001. The Bond Redemption Debt Service Fund expenditures primarily reflect principal and interest costs of

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

\$758,994 on the District's general obligation debt.

The Capital Reserve Fund is used to acquire land and improvements, new facilities, additions, repairs and renovations to existing facilities, equipment and safety upgrades. Total revenues for the Capital Reserve Fund were \$154,690, while expenditures totaled \$335,927. The revenue sources were payment in lieu of taxes of \$154,690 and a transfer of \$160,000 from the general fund. The revenues were used to fund renovations to district buildings of \$104,231, upgrades to technology and equipment of \$67,231 and vehicles for \$164,464 which included a compact loader and a bus.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total budgeted appropriations for the General Fund adopted by the Board of Education for fiscal year 2018 were \$13,246,242 which includes \$415,354 for the preschool fund.

In fiscal year 2018, property tax revenues received in the General Fund was \$5,264,752 compared to the budgeted amount of 5,316,597 which is a 1% difference.

State Equalization funds amounted to \$2,916,414 compared to the budgeted amount of \$2,865,330. This is an increase over budgeted expectations of \$51,084.

In fiscal year 2018, final budgeted expenditures for the General Fund totaled \$13,246,242 while actual expenditures totaled \$9,707,891. \$3,022,551 of the budgeted expenditures are for operating reserves and TABOR restricted balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - As of June 30, 2018 total capital asset was \$34,420,010. This is a net decrease of \$928,978 from June 30, 2017. The District's primary expenditures were from additions to transportation equipment.

Additional information on the District's capital assets may be found in Note E to the financial statements.

Long-term debt as of June 30, 2018 is \$9,218,192. Additional information on the District's long-term debt may be found in Note F to the financial statements.

FACTORS BEARING ON DISTRICT'S FUTURE

Over the past few years, the District was able to continue to maintain our fund balance. The District enrollment for 2018 decreased 17 FTE. Enrollment is projected to stabilize in coming years; however, if enrollment decreases continue, they will have a significant impact on our fund balance in the future. The District will have continued financial challenges with the maintenance of effort in

Lake County School District R-1
Leadville, Colorado

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2018

staffing and operational costs if the decline continues.

Increasing cost of living in Leadville is a significant concern for our employees and for the District. Increased salaries will need to be maintained for retention purposes, but the decrease in enrollment will affect our staffing. Our District continues to rely on grant dollars for many programs. The acquisition of grants will need to continue in order to maintain the current programs for our students. Our capital project needs exceed the amount we are able to set aside for capital projects. The District continues to need support from the state capital construction grant dollars.

Requests for Information

This financial report is designed to provide a general overview of the Lake County School District R 1's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

Chief Financial Officer
528 West 5th Street
Leadville, CO 80461

Lake County School District R-1

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 4,059,639
Restricted cash and investments	1,191,898
Cash with county treasurer	128,836
Property taxes	173,887
Accounts receivable	2,824
Grants receivable	681,842
Inventory	1,340
Capital assets, not being depreciated	186,526
Capital assets, net of depreciation	34,233,484
Total assets	40,660,276
DEFERRED OUTFLOWS	
Deferred outflows of resources related to other post employment benefits	39,271
Deferred outflows of resources related to pensions	13,060,473
Total deferred outflows	13,099,744
LIABILITIES	
Accounts payable	82,765
Accrued salaries and benefits	1,059,176
Unearned Revenue	289,666
Due within one year	556,582
Due in more than one year	8,661,610
Net OPEB liability	1,031,526
Net pension liability	45,171,539
Total liabilities	56,852,864
DEFERRED INFLOWS	
Deferred inflows of resources related to other post employment benefits	61,550
Deferred inflows of resources related to pensions	2,836,895
Total deferred inflows	2,898,445
NET POSITION	
Net investment in capital assets	25,277,505
Restricted	
Tabor	356,000
Debt service	1,266,198
Colorado Preschool Program	59,528
Unrestricted	(32,950,520)
Total net position	\$ (5,991,289)

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

Lake County School District R-1

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

Functions/Programs	Expenses	Program revenue			Net expenses (revenues) and changes in net position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 10,344,605	\$ -	\$ 2,544,704	\$ -	\$ (7,799,901)
Supporting services	8,200,367	16,177	1,243,851	-	(6,940,339)
Food services	927,795	153,550	476,364	-	(297,881)
Community services	1,236,919	172,146	-	-	(1,064,773)
Interest on long-term debt	281,984	-	-	-	(281,984)
Unallocated Depreciation	1,172,674	-	-	-	(1,172,674)
Total governmental activities	<u>\$ 22,164,344</u>	<u>\$ 341,873</u>	<u>\$ 4,264,919</u>	<u>\$ -</u>	<u>\$ (17,557,552)</u>
General Revenue					
Property taxes, General					5,275,537
Property taxes, Debt Service					777,999
Specific ownership taxes					374,464
Payment in Lieu of taxes					154,691
State Equalization (Unrestricted)					2,916,414
Insurance Proceeds					23,621
Investment Earnings					38,463
Total general revenues and allocations					<u>9,561,189</u>
Change in net position					(7,996,363)
Net position, beginning of year					(11,723,700)
Prior period adjustment					13,728,774
Net position, beginning of year restated					<u>2,005,074</u>
Net position, end of year					<u>\$ (5,991,289)</u>

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

Lake County School District R-1
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Designated Purpose Grants Fund	Bond Redemption	Capital Reserve	Total NonMajor Funds	Total
Assets						
Cash and Investments	\$ 3,829,173	\$ 160,811	\$ -	\$ 46,178	\$ 23,477	\$ 4,059,639
Restricted Cash and Investments	-	-	1,191,898	-	-	1,191,898
Cash with County Treasurer	69,307	-	59,529	-	-	128,836
Property Taxes	159,116	-	14,771	-	-	173,887
Accounts Receivable	2,819	-	-	-	-	2,819
Grants Receivable	45,810	365,842	-	137,098	133,092	681,842
Due from other funds	-	78,627	-	269,713	17,795	366,135
Inventories	-	-	-	-	1,340	1,340
Total assets	<u>\$ 4,106,225</u>	<u>\$ 605,280</u>	<u>\$ 1,266,198</u>	<u>\$ 452,989</u>	<u>\$ 175,704</u>	<u>\$ 6,606,396</u>
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 59,631	\$ 1,796	\$ -	\$ 20,155	\$ 1,183	\$ 82,765
Accrued salaries and benefits	887,926	108,379	-	-	62,871	1,059,176
Unearned revenue	20,801	261,382	-	-	7,483	289,666
Due to Other Funds	54,810	233,723	-	-	77,602	366,135
Total liabilities	<u>1,023,168</u>	<u>605,280</u>	<u>-</u>	<u>20,155</u>	<u>149,139</u>	<u>1,797,742</u>
Fund balances						
Nonspendable	-	-	-	-	1,340	1,340
Restricted						
Emergency reserve - TABOR	356,000	-	-	-	-	356,000
Debt service	-	-	1,266,198	-	-	1,266,198
Colorado Preschool Program	59,528	-	-	-	-	59,528
Committed						
Food service					5,004	5,004
Early Childhood Education					20,221	20,221
Assigned						
Capital Projects	-	-	-	432,834	-	432,834
Other purpose	-	-	-	-	-	-
Unassigned	2,667,529	-	-	-	-	2,667,529
Total fund balances	<u>3,083,057</u>	<u>-</u>	<u>1,266,198</u>	<u>432,834</u>	<u>26,565</u>	<u>4,808,654</u>
Total liabilities and fund balances	<u>\$ 4,106,225</u>	<u>\$ 605,280</u>	<u>\$ 1,266,198</u>	<u>\$ 452,989</u>	<u>\$ 175,704</u>	<u>\$ 6,606,396</u>

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

Lake County School District R-1

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2018

Total governmental funds balance		\$	4,808,654
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
Cost of capital assets	\$	48,636,497	
Less accumulated depreciation		<u>(14,216,487)</u>	34,420,010
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year-end consist of:			
Bonds payable		(9,142,500)	
Early retirement liability		<u>(75,687)</u>	(9,218,187)
Items related to pensions are considered to be long-term items and are therefore not reported in the funds			
Net pension liability		(45,171,539)	
Net OPEB liability		(1,031,526)	
Deferred outflows related to pensions		13,060,473	
Deferred outflows related to OPEB		39,271	
Deferred inflows related to pensions		(2,836,895)	
Deferred inflows related to OPEB		<u>(61,550)</u>	<u>(36,001,766)</u>
Net position of governmental activities		\$	<u><u>(5,991,289)</u></u>

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

Lake County School District R-1

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

Year ended June 30, 2018

	General Fund	Designated Purpose Grants Fund	Bond Redemption	Capital Reserve	Total NonMajor Funds	Total
Revenues						
Local sources	\$ 6,341,839	\$ 505,050	\$ 788,821	\$ 154,690	\$ 448,972	\$ 8,239,372
State sources	3,494,329	284,430	-	-	15,409	3,794,168
Federal sources	253,511	884,704	-	-	996,229	2,134,444
Total revenues	10,089,679	1,674,184	788,821	154,690	1,460,610	14,167,984
Expenditures						
Current:						
Instructional	5,584,005	646,568	-	-	-	6,230,573
Supporting services	4,123,883	1,027,616	-	-	41,698	5,193,197
Food services	-	-	-	-	669,404	669,404
Community services	-	-	-	-	784,538	784,538
Capital outlay	-	-	-	335,927	-	335,927
Debt service	-	-	758,994	-	-	758,994
Total expenditures	9,707,888	1,674,184	758,994	335,927	1,495,640	13,972,633
Excess (deficiency) of revenues over (under) expenditures	381,791	-	29,827	(181,237)	(35,030)	195,351
Other financing sources (uses)						
Transfers In (Out)	(241,989)	-	-	160,000	81,989	-
Total other financing sources (uses)	(241,989)	-	-	160,000	81,989	-
Change in fund balance	139,802	-	29,827	(21,237)	46,959	195,351
Fund balance, beginning of year	2,943,255	-	1,236,371	454,071	15,762	4,649,459
Prior period adjustment	-	-	-	-	(36,156)	(36,156)
Fund balance, beginning restated	2,943,255	-	1,236,371	454,071	(20,394)	4,613,303
Fund balance, end of year	\$ 3,083,057	\$ -	\$ 1,266,198	\$ 432,834	\$ 26,565	\$ 4,808,654

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

Lake County School District R-1

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

Net change in fund balances- governmental funds	\$	195,351
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Amounts reported for governmental activities in the statement of
activities are different because:

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 as depreciation expense. This is the
amount by which depreciation exceeded capital outlays in the
current period:

Capital outlay	\$	243,701	
Depreciation expense		<u>(1,172,674)</u>	(928,973)

Some receivables will not be collected for several months after the
District's fiscal year ends and are therefore not considered available
revenues and are shown as unearned in the governmental funds.
This is the amount by which the related deferred inflows decreased.

Some expenses reported in the statement of activities do not require
the use of current financial resources, and therefore are not reported
as expenditures in the governmental funds:

Pension expense	(7,802,314)	
OPEB expense	(4,211)	
Increase in retirement benefits payable	<u>66,774</u>	(7,739,751)

Repayment of debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net position.

477,010

Change in net position	\$	<u><u>(7,996,363)</u></u>
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The accompanying notes are an integral part of the financial statements.

Lake County School District R-1

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
PUPIL ACTIVITY AGENCY FUND

June 30, 2018

Assets	
Cash	\$ 263,644
Liabilities	
Accounts payable	\$ 263,644

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake County School District R - 1 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. Following is a summary of the more significant policies

1. Reporting Entity

The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the District.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information of the District as a whole. The reporting information includes all of the non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District's government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements - continued

The District reports the following major governmental funds:

- The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *Designated Purpose Grants Fund* accounts for revenues and expenditures of local, state and federal grants.
- The *Bond Redemption Fund* account for property taxes restricted for the payment of general obligation debt issued by the District.
- The *Capital Reserve Fund* accounts for resources to be used for ongoing capital needs, such as site acquisition, building additions and equipment purchases.

The District reports the Food Service, Center and Head Start Program Special Revenue Funds as non-major governmental funds.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds accounted for assets held by the District under the terms of a formal trust agreement. The District reports the following fiduciary fund:

- The *Pupil Activity Agency Fund* is used to account for resources used to support each school's student and fundraising activities.

3. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, are custodial in nature and do not present results of operations or have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. On an accrual basis, property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting, and Basis of Presentation - Continued

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

Those revenues subject to accrual are property taxes, interest revenue and charges for services. Specific ownership taxes collected and held by the county at year end, on behalf of the District, are also recognized as revenue. Other revenues, such as transportation, vocational and special education, are not subject to accrual because, generally, they are not measurable until received in cash. Entitlements and shared revenues are recorded at the time of receipt, or earlier if the accrual criteria are met.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained by the District is consistent with legal and managerial requirements.

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity

Deposits and Investments

The District utilizes the pooled cash concept whereby cash balances of each of the District's funds are pooled and invested by the District.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. 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 uncollectible taxes.

Inventories

Inventories are considered expenditures when used and are stated at cost, on a first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include buildings, site improvements, vehicles, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation has been provided over the estimated useful lives of the asset in the government-wide presentation. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings and Sites 30 - 50 years
Transportation Equipment 10 years
Equipment and Furniture 5 - 15 years

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

Unearned revenue

Unearned revenue in the government-wide and the fund financial statements consists primarily of grant revenue that has been received but not yet earned by the District.

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is shown as pension and OPEB related amounts and includes items related to the District's portion of the Colorado Public Employees' Retirement Association (PERA) benefit plan and the associated Health Care Trust Fund administered by PERA.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows related to pension and OPEB liabilities reported on the government-wide statement of net position. These deferred inflows result from a number of changes in the net pension and OPEB liabilities.

Compensated Absences

District employees are entitled to certain compensated absences based upon their length of employment. Except for vacation time, compensated absences do not vest or accumulate and are not recorded as expenditures when they are paid. Compensated absences (accrued vacation) are not reflected in the General Fund as the current amount due is determined to be insignificant. For those employees contracted to work a set number of days during a year, no vacation accrual accumulates.

Early Retirement - The District has periodically paid early retirement benefits to employees. The amount of this benefit varies depending on length of service. A long-term liability is reported in the government-wide financial statements for the benefits approved by the Board of Education and earned and accepted by the employees.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

Accrued Salaries

Salaries and benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reflected as a liability in the financial statements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using a method which approximates the effective interest method. Bond issuance costs are expensed in the year they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported at other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, even if withheld from the actual new proceeds received, are reported as debt service expenditures in both the government-wide and fund financial statements.

Fund Balance/Net Position

Net position represents the difference between the assets and liabilities in the proprietary and District-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District reports the following restricted net positions:

Restricted for Emergencies – Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 10).

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

Restricted for Debt Service – represents the portion of net position that is legally restricted to payment of principal and interest on long-term debt maturing in future years.

Restricted for Colorado Preschool Program – Represents the portion of net position that are legally restricted to the Colorado Preschool Program as defined by the School Finance Act of 1994, as amended.

Unrestricted net position represents assets that do not have any third-party limitations on their use.

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.

Unrestricted net position represents assets that do not have any third-party limitations on their use.

Under GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the fund financial statements, governmental funds report the following classifications of fund balance:

Non-spendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of Education, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Education.

Assigned – includes amounts the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Superintendent or designee.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Equity - Continued

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

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

5. State Equalization Aid

State equalization aid is revenue received from the State of Colorado computed in accordance with a funding formula as defined by State statute. The funding formula considers such factors as pupil enrollment and other revenue sources.

6. 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.*

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Pensions - continued

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*.

7. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of 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. An example of such an estimate that has been made by management is depreciation expense.

8. Property Taxes

Property taxes are recognized as revenue in the year in which they are intended to finance operating expenses, pursuant to the Colorado school district funding formula. As 2017 property taxes were both measurable and available at June 30, 2018, the District has recognized a receivable (net of uncollectible portion) for property taxes levied January 1, 2018 but not collected by June 30, 2018.

Property Tax Revenues – Property taxes are levied on December 15 based on the assessed value of property as certified by the County Assessor by December 10. Assessed values are an approximation of market value. The property tax may be paid in total by April 30 or one-half payment by February 28 and the second half by June 15. The billings are considered due on these dates. The bill becomes delinquent and penalties and interest may be assessed by the County Treasurer on the post mark day following these dates. The tax sale date is the first Thursday of November.

9. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Other Post Employment Benefit

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 for 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.

NOTE B – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, Colorado voters passed an amendment to Article X, Section 20 (TABOR), of the State Constitution, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments, including an emergency reserve to be maintained at 3% of fiscal year spending (excluding bonded debt service). On November 5, 1996, the District electors approved the retention and spending of the District's non-tax revenues for the year ended June 30, 1996, and subsequent years, without regard to the limitations imposed by the Amendment.

The Tabor Amendment requires the District to establish a reserve for emergencies. At June 30, 2018, the District reserved \$356,000 in the General Fund for that purpose.

NOTE C – DEPOSITS AND INVESTMENTS

The District holds the following cash and investments as of June 30, 2018:

Deposits	\$ 2,564,132
Investments	<u>2,951,049</u>
Total cash and investments	<u>\$ 5,515,181</u>

The cash and investments are allocated in the financial statements as follows:

Governmental Activities – Unrestricted	\$ 4,059,639
Governmental Activities – Restricted	1,191,898
Fiduciary Activities	<u>263,644</u>
Total cash and investments	<u>\$ 5,515,181</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE C – DEPOSITS AND INVESTMENTS – CONTINUED

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government to deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools. The District does not have a formal deposit policy.

At June 30, 2018, the carrying amount of the District's deposits was \$2,564,132 and the bank balance was \$2,768,824. Of that balance, \$250,000 was covered by FDIC insurance and \$2,518,824 was collateralized.

Investments

Colorado statutes define eligible investments for local governments. These include bonds and other interest-bearing obligations of the State of Colorado or any of its political subdivisions, repurchase agreements, commercial paper, guaranteed investment contracts and local government investment pools.

Interest rate risk. The District manages its interest rate risk by setting a maximum maturity date no more than five years from the date of purchase unless otherwise authorized by the Board of Education.

Credit Risk. The District's investment policy is to apply the "prudent investor" rule, which states "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculations, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in investments guaranteed by the United States government.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE C – DEPOSITS AND INVESTMENTS – CONTINUED

At June 30, 2018, the District had invested \$2,951,049 in Colorado Government Liquid Asset Trust (COLOTRUST). Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodian bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. Colotrust is rated AAAm by Standard and Poor's. The District's investment in Colotrust as of June 30, 2018 is measured using net asset value and is therefore not categorized in a level.

NOTE D – INTERFUND BALANCES AND TRANSFERS

Interfund balances are created when there is a liability of one fund due to another fund. Interfund balances for the year ended June 30, 2018, were composed of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ –	\$ 54,810
Designated Grants Fund	78,627	233,723
Capital Reserve Fund	269,713	–
Nonmajor Governmental Funds	<u>17,795</u>	<u>77,602</u>
Total	<u>\$ 366,135</u>	<u>\$ 366,135</u>

Interfund balances result from the time lag between when expenditures occur in a fund and the time it takes to reimburse the fund that paid the expenditure in the pooled cash allocation. The interfund receivables and payables are expected to be collected and paid in the subsequent year.

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) provide additional resources for current operations or debt service.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE D – INTERFUND BALANCES AND TRANSFERS - CONTINUED

During the year ended June 30, 2018 transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ —	\$ 241,989
Capital Reserve	160,000	—
Nonmajor Governmental Funds	81,989	—
Total	<u>\$ 241,989</u>	<u>\$ 241,989</u>

NOTE E – CAPITAL ASSETS

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

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 186,526	\$ —	\$ —	\$ 186,526
Total non-depreciable capital assets	<u>186,526</u>	<u>—</u>	<u>—</u>	<u>186,526</u>
Capital assets being depreciated				
Buildings	45,989,692	27,101	—	46,016,793
Transportation equipment	1,725,206	161,907	(15,859)	1,871,254
Other equipment	<u>507,236</u>	<u>54,688</u>	<u>—</u>	<u>561,924</u>
Total depreciable capital assets	48,222,134	243,696	(15,589)	48,449,971
Less accumulated depreciation				
Buildings	(11,533,989)	(1,036,380)	—	(12,570,369)
Transportation equipment	(1,303,623)	(110,989)	15,859	(1,398,753)
Other equipment	<u>(222,060)</u>	<u>(25,305)</u>	<u>—</u>	<u>(247,365)</u>
Total accumulated depreciation	<u>(13,059,672)</u>	<u>(1,172,674)</u>	<u>15,859</u>	<u>(14,216,487)</u>
Net capital assets	<u>\$ 35,348,988</u>	<u>\$ (928,978)</u>	<u>\$ —</u>	<u>\$ 34,420,010</u>

The District does not allocate its depreciation expense across its functions.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE F – LONG-TERM OBLIGATIONS

General Obligation Bonds

The following is an analysis of changes in long-term debt for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Current Portion
General Obligation Bonds, series 2012	\$ 9,619,515	\$ –	\$ 477,010	\$ 9,142,505	\$ 491,349
Early retirement obligations	142,461	–	66,774	75,687	65,233
Net pension liability	43,717,269	8,345,657	6,891,387	45,171,539	–
Net OPEB liability	<u>1,082,088</u>	<u>10,989</u>	<u>61,550</u>	<u>1,031,527</u>	<u>–</u>
Total	<u>\$ 54,561,333</u>	<u>\$ 8,356,646</u>	<u>\$ 7,496,721</u>	<u>\$ 55,421,258</u>	<u>\$ 556,582</u>

\$11,396,379 General Obligation Bonds, Series 2012 were issued to finance improvements to the Lake County High School. Principal payments are due annually on December 1, beginning December 1, 2013 through 2032. Interest payments are due semi-annually on June 1 and December 1. Interest accrues at the rate of 3.005898%. The Bonds are subject to redemption prior to maturity at the option of the District, in whole but not in part, on December 1, 2022 and on any date, thereafter, at a redemption price equal to the principal amount thereof and a redemption premium of 3% of the principal amount so redeemed, plus accrued interest to the redemption date.

The District's general obligation bonds will mature as follows:

Year	Principal	Interest	Total
2019	\$ 491,349	\$ 267,430	\$ 758,779
2020	506,118	252,438	758,556
2021	521,332	236,996	758,328
2022	537,002	221,090	758,092
2023	553,144	204,706	757,850
2024-2028	3,025,348	759,998	3,785,346
2029-2033	<u>3,508,212</u>	<u>269,877</u>	<u>3,778,089</u>
Total	<u>\$ 9,142,505</u>	<u>\$ 2,212,535</u>	<u>\$ 11,355,040</u>

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Early Retirement Obligation

The District has offered early retirement incentives to staff that are payable over a five year period subsequent to retirement in the form of a monthly benefit. The current portion of the early retirement incentive has been included in the District's accrued salaries and benefits in the general fund. Required payments related to the early retirement obligation are as follows:

<u>Fiscal Year</u>	<u>Early Retirement Obligations</u>
2019	\$ 65,233
2020	<u>10,454</u>
Total	<u>\$ 75,687</u>

NOTE G – DEFINED BENEFIT PENSION PLAN

1. 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.

Benefits Provided as of December 31, 2017. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structures(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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2010 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 of 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

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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

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.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

Contributions provisions as of June 30, 2018. 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:

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

¹Rates 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 \$1,329,728 for the year ended June 30, 2018.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

3. 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 \$45,171,539 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The District's proportion of the net pension liability was based on the District's 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's proportion was 0.1396923291%, which was a decrease of 0.0071386799% from its proportion measured as of December 31, 2016 of 0.1468310090%.

For the year ended June 30, 2018, the District recognized pension expense of \$9,132,042. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 830,514	\$ –
Changes of assumptions or other inputs	11,533,971	73,192
Net difference between projected and actual earnings on pension plan investments	–	1,773,929
Changes in proportion and differences between contributions recognized and proportionate share of contributions	40,652	989,774
Contributions subsequent to the measurement date	655,336	–
Total	<u>\$ 13,060,473</u>	<u>\$ 2,836,895</u>

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

\$655,336 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2019	\$ 6,712,742
2020	3,657,881
2021	(124,977)
2022	(677,404)
2023	—
Thereafter	—

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

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 - 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA benefit structure hired 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, 2018.

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

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2106, 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 rate of return on pension 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 by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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 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 3.5 percent.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86% 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:

	Sensitivity of the NPL		
Discount rate:	3.78%	4.78%	5.78%
Proportionate share of the net pension liability	\$ 57,059,331	\$ 45,171,539	\$ 35,484,338

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/investment/pera-financial-reports.

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.

- Increases employer contribution rates by .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.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

At June 30, 2018, the District reported a liability of \$45,171,535 for its proportionate share of the net pension liability which was measured using the plan provision in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the District's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, became law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18- 200 (pro-forma)
7.25%	\$20,408,108

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$21,086,355 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE H – DEFINED CONTRIBUTION PENSION PLAN

Voluntary Investment Program

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS

General Information about the OPEB Plan

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

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.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

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 school were \$65,727 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 school reported a liability of \$1,031,527 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 District 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 proportion was .079372 percent, which was a decrease of .004087 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$71,430. 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	\$4,878	\$–
Net difference between projected and actual earnings on OPEB plan investments	–	17,257
Changes in proportion and differences between contributions recognized and proportionate share of contributions	–	44,293
Contributions subsequent to the measurement date	34,393	N/A
Total	\$39,271	\$61,550

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

\$34,393 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
2019	\$(12,058)
2020	(12,058)
2021	(12,058)
2022	(12,056)
2023	(7,743)
Thereafter	(699)

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

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

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS – CONTINUED

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

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

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

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

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

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

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

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

Sensitivity of the 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 rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$1,003,145	\$1,031,526	\$1,065,710

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

Sensitivity of the District 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:

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$1,159,760	\$1,031,526	\$922,076

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

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District accounts for its risk activities in the General Fund.

The District purchases commercial insurance for its worker's compensation risks. For its risk of property loss or damage and general liability, the District participates in the Colorado School Districts Self-Insurance Pool (CSDSIP).

The CSDSIP is sponsored by the Colorado Association of School Boards, and operates as a self-insurance pool comprised of various school districts and other related public educational entities within the State of Colorado. The CSDSIP is administered by a board which is comprised of eight members. The eight members include the president, vice president and executive director of the Colorado Association of School Boards (CASB), with the remaining five members being appointed by the Board of directors of CASB. The District pays an annual premium to the VSDSIP for various types of property and liability insurance coverage. The pool agreement provides that the CSDSIP for various types of property and liability insurance coverage. The pool agreement provides that the CSDSIP will be self-sustaining through member premiums and will reinsure through a duly authorized insurer. The reinsurance covers claims against the CSDSIP in excess of specific claim amounts and in the aggregate in an amount and at limits determined by the CSDSIP to be adequate to protect the solvency of CSDSIP. Settled claims have not exceeded this coverage on any of the past three years.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE K – COMMITMENTS AND CONTINGENCIES

Claims and judgments

The District participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2018, significant amount of grant expenditures have not been audited but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Litigation

The District is involved in various litigations. District management estimates that the potential claims against the District not covered by insurance resulting from such litigation would be insignificant

Significant taxpayer

The assessed properties within the boundaries of Lake County include one taxpayer that represents approximately 30% of the total taxable assessed valuation of the County. Non-payment of taxes by this taxpayer would materially affect the revenues of the District.

Tabor amendment

In November 1992, Colorado voters passed the Tabor Amendment (Amendment 1) to the State Constitution which limits state and local government tax powers and imposes spending limitations. The District is subject to the Tabor Amendment.

Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded unless the District's electorate votes to retain the revenue. The Tabor Amendment is subject to many interpretations, but the District believes it is in substantial compliance with the Amendment.

In November 1996, voters within the District approved the following ballot question:

“WITHOUT INCREASING ANY TAX RATE OR IMPOSING ANY NEW TAX SHALL LAKE COUNTY SCHOOL DISTRICT R-1 BE AUTHORIZED TO COLLECT, KEEP AND EXPEND ALL GRANTS FROM STATE OR LOCAL GOVERNMENTS OR PRIVATE SOURCES RECEIVED IN THE YEAR 1996 TO AND INCLUDING 2001 WITHOUT REGARD TO ANY SPENDING, REVENUE-RAISING, OR OTHER LIMITATION IN ARTICLE X SECTION 20

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE K – COMMITMENTS AND CONTINGENCIES – CONTINUED

OF THE COLORADO CONSTITUTION OR OTHER LAWS OR OTHER LAWS OF THE STATE?”

The Tabor Amendment requires the District to establish a reserve for emergencies. At June 30, 2018, the District reserved \$356,000 in the General Fund for that purpose.

NOTE L – JOINTLY GOVERNED ORGANIZATION

The District is a participant among nine other districts and the Colorado Mountain College in a jointly governed organization to operate the Mountain Board of Cooperative Educational Services (BOCES). The BOCES was formed for the purpose of administrative functions among member districts for special education and federal grants. The BOCES is governed by a board of directors consisting of a member of the board of education and the superintendent from each of the participating members. The District does not have an ongoing financial interest in or ongoing financial responsibility for the BOCES. For the year ended June 30, 2018 the District paid assessments totaling \$136,153 to the BOCES. Financial statements for the BOCES can be obtained from the BOCES administrative offices at: 1713 Mount Lincoln Drive West, Leadville, CO 80461.

NOTE M – PRIOR PERIOD ADJUSTMENT

Change in accounting principal

Effective July 1, 2017, the District retroactively changed its method of accounting for OPEB contributions and related obligations to conform to GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. Under the new accounting method, the District accrues a net OPEB liability related to its participation in a multiple employer cost sharing OPEB plan. The effect of the change decreased beginning net position for 2018 by \$1,049,594.

Prior period misstatement

In the financial statements for the year ended June 30, 2017 the changes in assumptions and other inputs of \$14,185,344, the difference between expected and actual investment earnings of \$546,533 and the changes in proportionate share of net pension liability of \$82,647 were recognized as pension expense rather than as deferred outflows of resources which understated net position by \$14,814,524.

The Head Start fund had receivables that were overstated by \$36,156 that was carried forward from previous years. The effect of the adjustment of this balance was to decrease fund balance by \$36,156.

Lake County School District R-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE M – PRIOR PERIOD ADJUSTMENT - CONTINUED

The combination of these adjustments was \$13,728,774 and increased beginning net position from (\$11,723,700) to \$2,005,074 at July 1, 2017.

Fund balance in the Head Start fund decreased to (\$36,156) from a balance of zero at June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local				
Property taxes	\$ 5,316,597	\$ 5,316,597	\$ 5,264,749	\$ (51,848)
Specific ownership taxes	268,814	268,814	374,464	105,650
Delinquent taxes	33,000	33,000	10,788	(22,212)
Interest	2,500	2,500	27,643	25,143
Pupil activity revenue	20,000	20,000	16,154	(3,846)
Rent revenue	5,415	5,415	90,919	85,504
Donations	474,411	467,537	443,297	(24,240)
Insurance proceeds	-	-	23,621	23,621
Other local	190,000	190,000	90,204	(99,796)
Total Local	6,310,737	6,303,863	6,341,839	37,976
Intermediate Sources				
Forest reserve	15,000	15,000	-	(15,000)
State				
State Equalization	2,911,295	2,865,330	2,916,414	51,084
Vocational Education	12,251	25,917	23,855	(2,062)
ELPA	54,659	44,940	44,940	-
Transportation	82,716	82,716	81,266	(1,450)
BOCES Passthrough	206,178	206,178	209,313	3,135
Other State	250,758	212,404	218,541	6,137
Total State	3,517,857	3,437,485	3,494,329	56,844
Federal				
Other	100,000	100,000	107,388	7,388
Federal BOCES Passthrough	147,184	146,123	146,123	-
Total Federal	247,184	246,123	253,511	7,388
Total revenues	10,090,778	10,002,471	10,089,679	87,208
Expenditures				
Instruction				
Salaries	3,559,958	3,491,084	3,547,768	(56,684)
Benefits	1,282,105	1,242,192	1,144,079	98,113
Purchased services - professional	360,196	342,160	295,330	46,830
Purchased services - property	100	100	195	
Purchased services - other	369,440	360,942	363,387	(2,445)
Supplies	204,836	270,240	222,252	47,988
Property	1,000	1,000	130	870
Other	13,400	13,400	10,864	2,536
Total Instruction	5,791,035	5,721,118	5,584,005	137,208
Student Support				
Salaries	317,767	291,585	308,824	(17,239)
Benefits	131,232	126,192	120,705	5,487
Purchased services - professional	3,000	3,000	1,900	1,100
Purchased services - other	14,275	14,275	4,476	9,799
Supplies	2,444	2,644	1,057	1,587
Total Student Support	468,718	437,696	436,962	734

(Continued)

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Instructional Staff				
Salaries	105,840	111,622	111,754	(132)
Benefits	27,819	41,959	36,044	5,915
Purchased services - professional	227,700	227,000	210,556	16,444
Purchased services - other	1,650	1,650	2,073	(423)
Supplies	93,500	65,990	91,532	(25,542)
Property	9,000	9,000	15,698	(6,698)
Total Staff Support	465,509	457,221	467,657	(10,436)
General Administration				
Salaries	223,510	162,581	158,570	4,011
Benefits	71,735	52,254	47,623	4,631
Purchased services - professional	9,000	9,000	2,190	6,810
Purchased services - other	17,500	20,000	13,086	6,914
Supplies	7,800	7,800	7,415	385
Other	12,700	14,700	13,118	1,582
Total General Administration	342,245	266,335	242,002	24,333
School Administration				
Salaries	507,717	517,986	517,661	325
Benefits	170,376	172,437	166,244	6,193
Purchased services - other	650	650	300	350
Supplies	12,250	12,250	5,766	6,484
Property	200	200	90	110
Total School Administration	691,193	703,523	690,061	13,462
Business				
Salaries	110,721	111,199	92,468	18,731
Benefits	32,224	32,906	26,604	6,302
Purchased services - professional	5,000	5,000	11,541	(6,541)
Purchased services - other	3,500	3,500	6,813	(3,313)
Supplies	1,000	1,000	-	1,000
Other	450	450	365	85
Total Business	152,895	154,055	137,791	16,264
Operations and Maintenance				
Salaries	565,880	558,397	543,688	14,709
Benefits	208,625	204,086	203,993	93
Purchased services - professional	60,000	60,000	70,785	(10,785)
Purchased services - property	126,000	126,000	136,378	(10,378)
Purchased services - other	1,500	1,500	2,283	(783)
Supplies	324,000	307,000	320,143	(13,143)
Property	15,000	15,000	12,268	2,732
Total Operations and Maintenance	1,301,005	1,271,983	1,289,538	(17,555)

(Continued)

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Student Transportation				
Salaries	202,485	212,485	191,268	21,217
Benefits	101,522	101,522	110,525	(9,003)
Purchased services - professional	5,000	5,000	5,178	(178)
Purchased services - property	20,000	20,000	50,974	(30,974)
Purchased services - other	5,500	5,500	4,138	1,362
Property	3,000	3,000	-	3,000
Supplies	19,700	19,700	16,441	3,259
Total Student Transportation	357,207	367,207	378,524	(11,317)
Central Services				
Salaries	-	62,929	62,930	(1)
Benefits	-	21,108	19,800	1,308
Purchased services	235,000	225,000	398,618	(173,618)
	235,000	309,037	481,348	(172,311)
Total Supporting Services	4,013,772	3,967,057	4,123,883	(156,826)
Reserves for contingencies				
Reserves for contingencies	3,152,051	3,022,551	-	3,022,551
Total expenditures	12,956,858	12,710,726	9,707,888	3,002,933
Excess of revenues over (under) expenditures	(2,866,080)	(2,708,255)	381,791	(2,915,725)
Other financing sources				
Transfers (out)	(50,000)	(235,000)	(241,989)	(6,989)
Total other financing sources	(50,000)	(235,000)	(241,989)	(6,989)
Net change in fund balance	(2,916,080)	(2,943,255)	139,802	(2,922,714)
Fund balance, beginning	2,916,080	2,943,255	2,943,255	-
Fund balance, ending	\$ -	\$ -	\$ 3,083,057	\$ (2,922,714)

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GRANTS FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local				
Donations	\$ 362,697	\$ 767,364	\$ 498,030	\$ (269,334)
Grants	7,021	7,021	7,020	(1)
Total Local	369,718	774,385	505,050	(269,335)
State				
Health Care Professional grant	-	152,419	127,262	(25,157)
Expelled At-Risk grant	93,473	103,168	103,168	-
Student wellness	50,000	50,000	50,000	-
Other State	-	4,000	4,000	-
Total State	143,473	309,587	284,430	(25,157)
Federal				
Title I-A - Improving Basic Programs	303,030	307,072	268,122	(38,950)
NCLB Title I Part A	64,412	64,412	60,000	(4,412)
21st Century Community Learning Centers	160,567	230,453	218,215	(12,238)
Title VI - Rural and Low Income Schools	21,110	6,152	6,152	-
Title III Set Aside Immigrant NCLB ELA	1,663	-	-	-
Title III, Part A	23,971	24,309	24,309	-
Title II, Part A - Teacher Quality	42,370	44,380	44,668	288
Carl Perkins Vocational Education	25,000	28,256	30,758	2,502
Race to the Top	-	-	5,188	5,188
Tiered Intervention Grant	214,285	214,285	200,922	(13,363)
Other	-	26,370	26,370	-
Total Federal	856,408	945,689	884,704	(60,985)
Total Revenues	1,369,599	2,029,661	1,674,184	(355,477)
Expenditures				
Instruction				
Salaries	238,041	303,899	305,606	(1,707)
Benefits	67,302	77,374	79,375	(2,001)
Purchased services - professional	93,380	185,158	126,908	58,250
Purchased services - other	47,620	40,987	35,556	5,431
Supplies	59,028	100,068	93,935	6,133
Property	10,575	-	5,188	(5,188)
Total Instruction	515,946	707,486	646,568	60,918
Student Support				
Salaries	316,376	544,127	460,482	83,645
Benefits	120,633	200,300	125,425	74,875
Purchased services - professional	154,852	144,563	131,042	13,521
Purchased services - other	26,675	107,908	32,124	75,784
Supplies	28,732	36,808	12,840	23,968
Property	5,000	7,542	-	7,542
Other	4,412	4,412	-	4,412
Total Student Support	656,680	1,045,660	761,913	283,747

(Continued)

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GRANTS FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Staff support				
Salaries	125,988	190,699	178,682	12,017
Benefits	46,328	62,843	62,683	160
Total Staff Support	172,316	253,542	241,365	12,177
School administration				
Salaries	20,252	18,250	19,400	(1,150)
Benefits	4,405	4,723	4,938	(215)
	24,657	22,973	24,338	(1,365)
Total expenditures	1,369,599	2,029,661	1,674,184	355,477
Net change in fund balance	-	-	-	-
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ -	\$ -

Lake County School District R-1

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

Year ended June 30, 2018

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
<u>Measurement date:</u>					
December 31, 2013	0.14683102%	\$ 18,308,363	5,786,362	316.41%	64.10%
December 31, 2014	0.14438743%	19,569,347	6,049,167	323.51%	62.80%
December 31, 2015	0.14604846%	22,387,081	6,363,878	351.78%	59.16%
December 31, 2016	0.14683102%	43,717,274	6,590,004	663.39%	43.13%
December 31, 2017	0.13969233%	45,171,535	6,679,965	676.22%	43.96%

Lake County School District R-1

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

Year ended June 30, 2018

<u>Measurement date:</u>	<u>Required employer contribution</u>	<u>Employer contributions recognized by the plan</u>	<u>Difference</u>	<u>Employer covered payroll</u>	<u>Contributions as a percentage of employer covered payroll</u>
June 30, 2013	926,219	926,219	-	5,748,203	16.11%
June 30, 2014	990,535	990,535	-	5,822,274	17.01%
June 30, 2015	1,120,600	1,120,600	-	6,256,642	17.91%
June 30, 2016	1,233,696	1,233,696	-	6,571,617	18.77%
June 30, 2017	1,235,169	1,235,169	-	6,366,791	19.40%
June 30, 2018	1,329,727	1,329,727	-	6,679,965	19.91%

Lake County School District R-1

SCHEDULE OF ACTIVITY - NET OPEB LIABILITY

Year ended June 30, 2018

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
<u>Measurement date:</u>					
December 31, 2017	0.07937263%	1,031,527	6,679,965	15.44%	18.00%

Lake County School District R-1

SCHEDULE OF ACTIVITY - EMPLOYER CONTRIBUTIONS TO OPEB

Year ended June 30, 2018

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
<u>Measurement date:</u>					
June 30, 2018	68,135	68,135	-	6,679,965	1.02%

Lake County School District R-1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

NOTE A – BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with generally accepted accounting principles, except for the enterprise fund which budgets on a non-GAAP basis. Annual appropriated budgets are adopted for all funds. All annual appropriations lapse at fiscal year-end. The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- Budgets are required by state law for all funds. By May 31, the Superintendent of Schools submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at year end.
- Public hearings are conducted by the Board of Education to obtain taxpayer comments.
- Prior to June 30, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- Budgeted amounts reported in the accompanying financial statements are as originally adopted or as revised by the Board of Education.
- Budget amendments increasing total fund appropriations must be approved by the Board of Education. During the year, supplemental appropriation resolutions were approved by the Board of Education.
- During the year ended June 30, 2018, supplementary appropriations approved by the District as follows:

	<u>Original Budget</u>	<u>Final Budget</u>
General Fund	\$ 13,303,408	\$ 13,246,242
Designated Grants Fund	1,369,599	2,130,019
Food Service Fund	748,500	773,500
Center Fund	148,865	149,151
Head Start Fund	551,822	551,822
Bond Redemption Fund	1,982,612	2,025,600
Capital Reserve Fund	718,168	629,071
Pupil Activity	275,000	275,000
Total	<u>\$ 19,097,974</u>	<u>\$ 19,780,405</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

NOTE A – BUDGETS AND BUDGETARY ACCOUNTING – CONTINUED

The Head Start fund was over budget in the current year by \$148,024 for in-kind contributions that weren't budgeted. The Center fund exceeded its budget by \$1,228. These over-expenditures may be a violation of State budget law.

NOTE B – PENSIONS SCHEDULES

Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2015, the discount rate changed from 7.5% to 5.26%. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS SCHEDULES

Factors that Significantly Affect Trends in the Amounts Reported

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

SUPPLEMENTARY INFORMATION

Lake County School District R-1

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2018

	Food Service Fund	Center Fund	Head Start Fund	Total 2018
Assets				
Cash and investments	\$ 5,669	\$ 17,808	\$ -	\$ 23,477
Grants receivable	44,148	-	88,944	133,092
Due from other funds	-	17,795	-	17,795
Inventory	1,340	-	-	1,340
Total Assets	51,157	35,603	88,944	175,704
Liabilities and Fund Balance				
Liabilities				
Accounts payable	274	25	884	1,183
Accrued salaries and benefits	20,029	7,874	34,968	62,871
Unearned revenues	-	7,483	-	7,483
Due to other funds	24,510	-	53,092	77,602
Total Liabilities	44,813	15,382	88,944	149,139
Fund Balances				
Nonspendable	1,340	-	-	1,340
Committed	5,004	20,221	-	25,225
Unassigned	-	-	-	-
Total Fund Balance	6,344	20,221	-	26,565
Total Liabilities and Fund Balance	\$ 51,157	\$ 35,603	\$ 88,944	\$ 175,704

Lake County School District R-1

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2018

	Food Service Fund	Center Fund	Head Start Fund	Total 2018
Revenues				
Local sources	\$ 153,551	\$ 146,251	\$ 149,170	\$ 448,972
State sources	15,409	-	-	15,409
Federal Sources	460,955	3,460	531,814	996,229
Total revenues	629,915	149,711	680,984	1,460,610
Expenditures				
Food services	669,404	-	-	669,404
Operations and maintenance	-	4,081	15,638	19,719
Transportation	-	-	21,979	21,979
Community support	-	141,171	643,367	784,538
Total expenditures	669,404	145,252	680,984	1,495,640
Excess Revenues over (under) expenditures	(39,489)	4,459	-	(35,030)
Other financing sources				
Transfers in (out)	45,833	-	36,156	81,989
Total other financing sources	45,833	-	36,156	81,989
Net change in fund balance	6,344	4,459	36,156	46,959
Fund balance, beginning	-	15,762	-	15,762
Prior period adjustment	-	-	(36,156)	(36,156)
Fund balance, beginning restated	-	15,762	(36,156)	(20,394)
Fund balance, ending	\$ 6,344	\$ 20,221	\$ -	\$ 62,721

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FOOD SERVICE FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Lunch sales	\$ 80,000	\$ 80,000	\$ 115,857	\$ 35,857
Ala Carte sales	31,000	31,000	20,816	(10,184)
Special function sales	18,000	18,000	16,879	(1,121)
SMCN	4,500	4,500	3,726	(774)
Start Smart	5,000	5,000	6,527	1,527
Other State	5,000	5,000	5,156	156
Commodity distribution	40,000	40,000	32,872	(7,128)
National School Lunch Program	280,000	280,000	220,956	(59,044)
National School Breakfast Program	175,000	175,000	137,761	(37,239)
Summer Food Program	5,000	5,000	8,639	3,639
CACFP Snack grant	35,000	35,000	44,270	9,270
Other Federal	20,000	20,000	16,457	(3,543)
Total revenues	698,500	698,500	629,916	(68,584)
Expenditures				
Salaries	262,365	262,365	257,983	4,382
Benefits	106,704	106,704	101,315	5,389
Purchased services - other	2,500	2,500	1,363	1,137
Supplied	12,000	12,000	1,746	10,254
Food	258,149	258,149	218,621	39,528
Milk	66,782	66,782	55,504	11,278
Commodities	40,000	40,000	32,872	7,128
Total expenditures	748,500	748,500	669,404	79,096
Revenues over (under) expenditures	(50,000)	(50,000)	(39,488)	10,512
Other financing sources				
Transfers in	50,000	50,000	45,833	(4,167)
Total other financing sources	50,000	50,000	45,833	(4,167)
Net change in fund balance	-	-	6,345	6,345
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ 6,345	\$ 6,345

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CENTER FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Tuition	\$ 107,350	\$ 107,350	\$ 116,251	\$ 8,901
Donations	33,500	33,500	30,000	(3,500)
IDEA Preschool	3,174	3,174	3,460	286
Total revenues	144,024	144,024	149,711	5,687
Expenditures				
Operations and Maintenance				
Salaries	4,200	4,200	2,706	1,494
Benefits	2,087	2,087	1,375	712
Total operations and maintenance	6,287	6,287	4,081	2,206
Community Support				
Salaries	84,674	84,674	72,080	12,594
Benefits	30,005	30,005	23,830	6,175
Purchased services	-	-	3,599	(3,599)
Supplies	4,003	4,003	37,484	(33,481)
Other	19,055	19,055	4,178	14,877
Total community support	137,737	137,737	141,171	(3,434)
Total expenditures	144,024	144,024	145,252	(1,228)
Net change in fund balance	-	-	4,459	4,459
Fund balance, beginning	-	-	15,762	-
Fund balance, ending	\$ -	\$ -	\$ 20,221	\$ 4,459

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - HEAD START PROGRAM FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
In-kind donations	\$ -	\$ -	\$ 149,170	\$ 149,170
Head Start grant	551,822	551,822	531,814	(20,008)
Total revenues	551,822	551,822	680,984	129,162
Expenditures				
Operations and Maintenance				
Salaries	20,912	20,912	10,367	10,545
Benefits	9,448	9,448	5,271	4,177
Total operations and maintenance	30,360	30,360	15,638	14,722
Transportation				
Salaries	18,000	18,000	15,500	2,500
Benefits	8,119	8,119	6,479	1,640
Total transportation	26,119	26,119	21,979	4,140
Community Support				
Salaries	310,978	310,978	325,553	(14,575)
Benefits	146,377	146,377	103,471	42,906
Purchased services - professional	15,831	15,831	16,467	(636)
Purchased services - other	5,745	5,745	6,140	(395)
Supplies	15,912	15,912	42,521	(26,609)
Other	500	500	149,215	(148,715)
Total community support	495,343	495,343	643,367	(148,024)
Total expenditures	551,822	551,822	680,984	(129,162)
Other financing sources				
Transfers in	-	-	36,156	36,156
Net change in fund balance	-	-	36,156	36,156
Fund balance, beginning	-	-	-	-
Prior period adjustment	-	-	(36,156)	(36,156)
Fund balance, beginning, restated	-	-	(36,156)	(36,156)
Fund balance, ending	\$ -	\$ -	\$ -	\$ -

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BOND REDEMPTION FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 789,229	\$ 789,229	\$ 778,001	\$ (11,228)
Interest income	-	-	10,820	10,820
Total revenues	789,229	789,229	788,821	(408)
Expenditures				
Debt service				
Principal	477,010	477,010	477,010	-
Interest	281,984	281,984	281,984	-
Total expenditures	758,994	758,994	758,994	-
Net change in fund balance	30,235	30,235	29,827	(408)
Fund balance, beginning	1,236,371	1,236,371	1,236,371	-
Fund balance, ending	<u>\$ 1,266,606</u>	<u>\$ 1,266,606</u>	<u>\$ 1,266,198</u>	<u>\$ (408)</u>

Lake County School District R-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL PROJECTS CAPITAL RESERVE FUND

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Payments in Lieu of Taxes	\$ 145,000	\$ 15,000	\$ 154,690	\$ 139,690
Total Revenues	145,000	15,000	154,690	139,690
Expenditures				
Facilities/Property				
Buildings	152,000	206,800	104,232	102,568
Equipment	78,000	78,000	67,231	10,769
Vehicles	108,000	148,000	164,464	(16,464)
Total Expenditures	338,000	432,800	335,927	96,873
Excess Revenues over (under) Expenditures	(193,000)	(417,800)	(181,237)	236,563
Other Financing Sources				
Transfers in	-	160,000	160,000	-
Total Other Financing Sources	-	160,000	160,000	-
Net change in fund balance	(193,000)	(257,800)	(21,237)	236,563
Fund balance, beginning	573,168	454,071	454,071	-
Fund balance, ending	<u>\$ 380,168</u>	<u>\$ 196,271</u>	<u>\$ 432,834</u>	<u>\$ 236,563</u>

Lake County School District R-1

BUDGETARY COMPARISON SCHEDULE - PUPIL ACTIVITY FUND

Year ended June 30, 2018

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
Receipts	\$ 275,000	\$ 222,312	\$ (52,688)
Disbursements	<u>275,000</u>	<u>186,767</u>	<u>88,233</u>
Net receipts (disbursements)	<u>\$ 550,000</u>	35,545	<u>\$ 35,545</u>
Cash in bank, beginning		<u>228,099</u>	
Cash in bank, ending		<u>\$ 263,644</u>	

Lake County School District R-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
PUPIL ACTIVITY AGENCY FUND

Year ended June 30, 2018

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Assets				
Cash	\$ 228,099	\$ 222,312	\$ 186,767	\$ 263,644
Liabilities				
Accounts payable	\$ 228,099	\$ 222,312	\$ 186,767	\$ 263,644

Lake County School District R-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

Federal Grantor/Pass Through Grantor/Program Title	State Pass-through ID	Federal CFDA Number	2018 Amount of Award Expended
U.S. Department of Agriculture			
Passed through Colorado Department of Human Services			
Food Distribution	4555	10.555	\$ 32,872
Passed through Colorado Department of Education			
School Breakfast Program	4553	10.553	137,761
National School Lunch Program	4555	10.555	220,956
Summer Food Service Program for Children	4559	10.559	8,639
Child Nutrition Cluster Sub-Total			<u>400,228</u>
Child Nutrition Discretionary Grants	5579	10.579	5,188
CDE Fresh Fruit & Vegetables	4582	10.582	16,457
Passed through Colorado Department of Public Health and Environment			
Child and Adult Care Food Program	4558	10.558	44,270
Total U.S. Department of Agriculture			<u>466,143</u>
U.S. Department of Education			
Passed through Colorado Department of Education			
Title I Part A Improving Basic Program Operated by Schools	4010	84.010	268,122
Title I Part A Improving Basic Program Operated by Schools	5010	84.010	60,000
21st Century Learning Centers	5287	84.287	218,215
ESSA Title V-B Rural and Low Income Schools	6358	84.358	15,713
Title VI Part B Rural and Low Income Schools	7358	84.358	6,152
Title IV-A Student Support	4424	84.424	10,000
Title III Part A English Language Acquisition	4365	84.365	24,309
Title II part A Improving Teacher Quality	4367	84.367	44,668
School Readiness Race to the Top	5412	84.412	657
Tiered Intervention Grant	7377	84.377	200,922
Passed through Mountain BOCES			
Title VI-B IDEA Special Education	4027	84.027	143,680
Title VI-B IDEA Preschool	4173	84.173	3,460
Special Education Cluster Sub-Total			<u>147,140</u>
Passed through Colorado Mountain College			
Carl Perkins	4048	84.048	30,758
Total U.S. Department of Education			<u>1,026,656</u>
U.S. Department of Health and Human Services			
Direct Program			
Head Start	8600	93.600	531,814
Total U.S. Department of Health and Human Services			<u>531,814</u>
Total Federal Awards			<u>\$ 2,024,613</u>

Lake County School District R-1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

NOTE A – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the Lake County School District R-1 (the District). The District's reporting entity is defined in Note A to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The District did not elect to use the 10% de minimis indirect cost rate.

Pass-through entities

The District did not pass-through any federal funds to other entities for the year ended June 30, 2018

Commodities

USDA donated foods (commodities) of \$32,872 have been valued at the USDA pricing levels.

Basis of accounting

The accompanying Schedule is presented using the modified accrual basis of accounting.



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

December 31, 2018

To the Board of Education
Lake County School District R-1
Leadville, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County School District R-1 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 31, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. The reference numbers for these findings are 2018-001 and 2018-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



Board of Education
Lake County School District R-1

Lake County School District's Response to Findings

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

Purpose of this Report

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

Chadwick, Steinkirchner, Davis & Co., P.C.



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

December 31, 2018

To the Board of Education
Lake County School District
Leadville, Colorado

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major



Board of Education
Lake County School District R-1

federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Chadwick, Steinkirchner, Davis & Co., P.C.

Lake County School District R-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unmodified Opinion</u>			
Internal control over financial reporting:				
Material weakness(es) identified?	<u>✓</u>	yes	<u> </u>	no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	yes	<u>✓</u>	none reported
Noncompliance material to financial statements noted?	<u> </u>	yes	<u>✓</u>	no

Federal Awards

Internal Control over major programs:				
Material weakness(es) identified?	<u> </u>	yes	<u>✓</u>	no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	yes	<u>✓</u>	none reported

Type of auditor's report issued on compliance for major programs:	<u>Unmodified Opinion</u>			
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	<u> </u>	yes	<u>✓</u>	no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	<u> </u> yes <u>✓</u> no

Lake County School District R-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

SECTION II - FINDINGS UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING
STANDARDS

Material Weakness
2018-001

Criteria: The District has multiple grants receivable balances at year end that should reconcile to supporting documentation and represent balances that are expected to be collected.

Condition: During testing of accounts receivable it was noted that there was an overstatement of \$36,156 in the Head Start fund which caused the fund balance to be overstated. Upon further review, it appears that the overstatement has been carried forward from fiscal year 2016.

Effect: Accounts receivable was overstated in the Head Start fund by \$36,156 and revenues were overstated by the same amount in previous years.

Cause: Accounts receivable balances that are recognized as incorrect are not being identified and corrected on a timely basis resulting in misstatements in the financial statements.

Recommendations: We recommend that reconciliations should be done of accounts receivable balances on a regular basis and that items identified as uncollectible be corrected when identified.

View of responsible officials: The district agrees.

Material weakness
2018-002

Criteria: The District is required to comply with the requirements of GASB 68 which requires recognition of the net pension liability and the deferred inflows, deferred outflows and pension expense related to the change in the net pension liability from year to year.

Condition: During testing it was noted that the beginning deferred outflows and the pension expense from the prior year were misstated for changes in assumptions and the difference between expected and actual investment earnings between fiscal years 2016 and 2017.

Effect: Pension expense was overstated by \$14,814,524 and deferred outflows of resources were understated by the same amount. This resulted in a prior period adjustment in the current year.

Cause: The District did not carefully review the calculation of the net pension liability to be able to identify the error and therefore did not identify that the financial statements were misstated.

View of responsible officials: The district agrees.

Lake County School District R-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with 2CFR 200.516(a).

Lake County School District R-1

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2018

There are no prior year audit findings.



Lake County School District R-1 respectfully submits the following corrective action plan for the year ended June 30, 2018.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2018-001 Head Start Receivable

Recommendation: Reconciliations should be done of accounts receivable balances on a regular basis and items identified as uncollectable should be corrected when identified.

Explanation of audit finding: The District is in agreement that there was an overstatement of \$36,156 in the Head Start fund that was carried forward in previous years and previous audits, starting in 2016. The overstatement represented expenditures by Head Start for which there was no accompanying revenue drawn down from the Federal grant.

Perhaps due to higher than average turnover in the Head Start Business Manager role, the drawdown of funds was not accomplished in a timely manner to cover these expenditures, which likely represent one month's of expense for the Head Start program. This error was not caught internally on the accounting side, illuminating a weakness in internal controls.

Action taken in response to finding: The current Business Manager has been working with the Office of Head Start and the Federal Payment Management System to rectify and complete the drawdown of these funds. The current Business Manager is leaving her position in January. The district's Accounting Manager and CFO will train the new Business Manager in January on insuring that monthly drawdowns are completed in a timely manner.

In addition, the Accounting Manager will complete quarterly reconciliations of the Head Start accounts receivable balances and will report these to the CFO to insure that any items identified as uncollectable are corrected when identified.

Names of the contact persons responsible for corrective action:
Kate Bartlett, CFO and Rena Sanchez, Accounting Manager



2018-002 GASB 68 Reporting

Recommendation: The District should review the net pension liability figures with the auditor before the publication of the annual audit.

Explanation of audit finding: The District is in agreement that there was an overstatement of \$14,814,524 in pension expense in the FY17 audit.

FY17 was the second year of the new GASB 68 requirements. The District's previous auditor did not correctly calculate or report the net pension liability for FY17.

Action taken in response to finding: The District will carefully review the net pension liability calculations with the auditor before publication of the annual audit to insure accuracy.

Name of the contact person responsible for corrective action:
Kate Bartlett, CFO



Colorado Department of Education
Auditors Integrity Report
District: 1510 - LAKE COUNTY R-1
Fiscal Year 2017-18
Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type &Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	2,828,418	9,587,000	9,391,888	3,023,530
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	114,838	260,690	316,000	59,528
Sub- Total	2,943,256	9,847,690	9,707,888	3,083,058
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	-20,394	866,851	826,236	20,221
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	675,748	669,405	6,344
22 Govt Designated-Purpose Grants Fund	0	1,674,184	1,674,184	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	1,236,372	788,820	758,994	1,266,198
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	454,070	314,691	335,927	432,834
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	4,613,305	14,167,983	13,972,633	4,808,655
Proprietary				
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
Totals	0	0	0	0
Fiduciary				
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	228,099	222,312	186,767	263,644
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	228,099	222,312	186,767	263,644

FINAL