

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
LA JARA, COLORADO**

FINANCIAL STATEMENTS

June 30, 2018



**Wall,
Smith,
Bateman** Inc.
Certified Public Accountants

NORTH CONEJOS SCHOOL DISTRICT RE-1J

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NORTH CONEJOS SCHOOL DISTRICT RE-1J

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INDEPENDENT AUDITORS' REPORT



Wall,
Smith,
Bateman Inc.

Board of Education
North Conejos School District RE-1J
La Jara, 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 North Conejos School District RE-1J (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Certified Public Accountants

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Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 – Summary of Significant Accounting Policies, in fiscal year 2018 the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, pension, and other postemployment benefits information on pages M1-M9 and 41-46 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 fund financial schedules and the Colorado School District 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 and as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial schedules, the schedule of expenditures of federal awards, and the Colorado School District Auditor's Integrity Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules, the schedule of expenditures of federal awards, and the Colorado School District Auditor's Integrity Report 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 11, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting compliance.

A handwritten signature in blue ink that reads "Wall, Smith, Bateman Inc." in a cursive script.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

December 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

As management of the North Conejos School District, we offer readers of the District's Financial Statements this narrative overview and analysis of the financial activities of North Conejos School District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Financial highlights for the fiscal year ended June 30, 2018, are as follows:

The final net position of the district is \$(13,210,424).

State Equalization increased \$7,169,996, up from \$6,604,247, for a decrease of \$565,749.

General Revenues, primarily property taxes, state equalization payments and Federal Funds accounted for \$8,073,019 of all revenues.

The District had \$9,363,401 in expenses related to governmental activities.

GOVERNMENTAL FUNDS

The District has five governmental funds as determined by Governmental Accounting Standards Board Statement No. 34 (GASB 34). The major funds are the General Fund, Capital Reserve Fund, and Food Service Fund.

The General Fund had \$9,082,855 in revenues and \$7,839,132 in expenditures. The General Fund balance increased from \$4,434,518 to \$5,292,810. This was an increase of \$858,292.

The Food Service Fund's fund balance decreased from \$1,935 to \$(24,294). This is a decrease of \$26,229.

The Capital Reserve Fund's fund balance increased from \$716,333 to \$778,343. This is an increase of \$62,010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: the Management's Discussion and Analysis, the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The first two statements are government-wide financial statements that provide both short- term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The governmental fund statements tell how basic services such as instruction were financed in the short-term, as well as, what remains for future spending.

Fiduciary Fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

GOVERNMENT-WIDE STATEMENTS

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

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

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating respectively.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Governmental activities: All of the District's basic services are included here, such as; instruction, transportation, maintenance and operations, and administration. The District's nutritional services program is included in government activities. The School Finance Act of 1994, as amended, made up of property taxes and state equalization, finance most of these activities.

FUND FINANCIAL STATEMENTS

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

Some funds are required by state law and by bond covenants.

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

The District has two kinds of funds:

Governmental Funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

Fiduciary Funds: The District is the agent, or fiduciary, for assets that belong to others such as small scholarship funds and student activity funds. The District is responsible for ensuring that the assets reported in these funds are

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also contains other supplemental information concerning the District's non-major governmental funds. The combining statements of the non-major governmental funds are presented after the notes to the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Government-wide Analysis:

The assets of the District are classified as current assets and capital assets. Cash, investments, receivables, inventories and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of the property tax collection process, the District receives almost **60%** of the annual property tax assessment in April, May, and June.

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

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

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Table I
Condensed Statement of Net Assets June 30, 2018**

	Governmental Activities	Governmental Activities
	2017	2018
Assets		
Current Assets	\$6,420,399	\$7,357,315
Capital Assets	\$8,294,620	\$7,996,697
Total Assets	\$14,715,019	\$15,354,012
Deferred Outflows of Resources	\$12,570,660	\$9,786,347
Liabilities		
Current	\$1,010,642	\$1,017,525
Long-Term	\$97,340	\$84,834
Net Pension liability	\$32,692,412	\$33,942,394
Net OPEB Liability		\$775,100
Total Liabilities	\$33,800,394	\$34,802,332
Deferred Inflows of Resources	\$1,141,628	\$2,530,926
Net Assets		
Invested in Capital	\$8,294,620	\$7,996,697
Tabor reserve	\$260,000	\$285,000
Unrestricted	(\$16,210,963)	(\$21,492,121)
Total Net Assets	(\$7,656,343)	(\$13,210,424)

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**TABLE II
CONDENSED STATEMENT OF ACTIVITIES**

	2017	2018
Revenues		
Program Revenues:		
Charges for Services	\$161,613	\$104,371
Operating Grants & Contrib.	\$1,298,416	\$1,663,163
Capital Grants and Contrib.	\$213,539	\$442,817
General Revenues	\$7,453,975	\$8,007,278
Interest on Investments	\$38,940	\$34,184
Miscellaneous	\$30,050	\$31,581
Total Revenues	\$9,196,533	\$10,283,394
Expenses		
Instructional Program	\$9,412,185	\$9,630,904
Student Supporting Services	\$638,214	\$826,440
Instructional Staff Supporting Services	\$386,592	\$333,504
General Administration Supporting Services	\$774,359	\$815,323
School Administration Supporting Services	\$760,325	\$1,137,716
Business Supporting Services	\$57,723	\$60,440
Operations and Maintenance of Plant Services	\$635,559	\$832,843
Student Transportation Services	\$447,718	\$396,771
Central Supporting Services	\$251,175	\$254,858
Food Services	\$431,898	\$573,317
Facilities Acquisition & Construction Services	\$0	\$191,382
Total Expenses	\$13,795,748	\$15,053,498
Change in Net Position	\$(4,599,215)	\$(4,770,104)
Net Position, Beginning of Year, As Previously Stated	\$(3,057,128)	\$(7,656,343)
Change in Accounting Principle		\$(783,977)
Net Position, Beginning of Year, Restated		\$(8,440,320)
Net Position, End of Year	\$(7,656,343)	\$(13,210,424)

GOVERNMENTAL ACTIVITIES

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal, federal, and state requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the net resources available for spending at the end of the fiscal year.

The primary source of operation revenue for school districts comes from the School Finance Act of 1994 (SFA). Under the SFA, the District received \$7,311.89 per funded student. The funded pupil count for fiscal year 2017 was 998.5. Funding for the SFA comes from property taxes, specific ownership and state equalization. The District received \$6,604,247 of this funding from state equalization while the remaining amounts came from property taxes and specific ownership tax.

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The statement of activities shows the cost of program services, the charges for services, and grants off-setting those services. Table III shows, governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state equalization and property taxes.

**Table III
Cost of Services - Governmental
Activities for Fiscal Year 2018**

	Total Cost- 2018	Total Cost-2017	Net Cost- 2018	Net Cost –2017
Instructional Program	\$9,630,904	\$9,412,185	(\$8,774,205)	(\$8,830,246)
Student Support Service	\$826,440	\$638,214	(\$385,424)	(\$290,810)
Instructional Staff Support Service	\$333,504	\$386,592	(\$330,004)	(\$383,092)
General Admin Support Services	\$815,323	\$774,359	(\$815,323)	(\$774,359)
School Admin Support Service	\$1,137,716	\$760,325	(\$1,137,716)	(\$760,325)
Business Support Service	\$60,440	\$57,723	(\$60,440)	(\$57,723)
Operation & Maintenance	\$832,843	\$635,559	(\$832,843)	(\$635,559)
Student Transportation	\$396,771	\$447,718	(\$313,684)	(\$360,707)
Central Support Service	\$254,858	\$251,175	(\$254,858)	(\$251,175)
Facility acquisition/construction	\$191,382	\$0	\$251,435	\$213,539
Food Service	\$573,317	\$431,898	(\$190,085)	\$8,277
Total Expenses	\$15,053,498	\$13,795,748	(\$12,843,147)	(\$12,122,180)

GENERAL FUND BUDGETARY HIGHLIGHTS

The NCSD's budget is prepared according to Colorado Law and is based on accounting for certain transactions on the modified accrual basis. Therefore, the District budgets each year for actual salaries for nine and ten month employees based on salaries for the school term of September to May but is paid over a time spanning September to August. The July and August salaries are accrued in the budgeted financial statements.

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

On June 30, 2018, the District had \$7,996,697 invested in sites, land improvements, buildings, equipment and vehicles: which was used in governmental activities. Table IV shows the investment in capital assets net of depreciation expense for governmental activities.

**Table IV
Capital Assets at June 30, 2018
(Net of Depreciation)**

	Total School	Total School
	District	District
	2018	2017
Sites (LAND)	\$348,995	\$348,995
Construction in Progress	\$0	\$593,937
Land Improvements	\$877,847	\$848,622
Buildings	\$10,316,815	\$9,716,970
Equipment	\$2,176,104	\$2,170,104
Vehicles	\$1,583,265	\$1,468,250
Less: Accumulated Depreciation	(\$7,306,369)	(\$6,852,258)
Totals	\$7,996,697	\$8,294,620

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

As of June 30, 2018 the District had \$84,838 recorded as long term debt. Table V details this outstanding debt and the portion due within one year for the District. Compensated absences of \$84,838 are considered paid when used or when it is bought back upon an employee retiring or resigning. Table compares that debt to fiscal year 2017.

**Table V Outstanding Debt
Current and Total at June 30, 2017**

	Governmental Activities		Governmental Activities	
	Due Within One Year/Total Debt		Due Within One Year/Total Debt	
	2018		2017	
Early Retirement Bonus Payable	\$0	\$0	\$0	\$0
Compensated Absences	\$0	\$84,838	\$0	\$97,340
Totals	\$0	\$84,838	\$0	\$97,340

FACTORS BEARING ON THE DISTRICT'S FUTURE

The district was aware of the following

- Maintaining current staff levels and student enrichment programs while encountering a continued declining student
- Enrollment (see below).
- Receiving less in state equalization.
- Maintaining a fund balance in excess of 3 million dollars while adjusting for higher transportation and energy costs, water and sewer payment increase, and employee benefit costs.
- Maintaining a fund balance while adjusting to higher overall maintenance costs due to outside services.

Amendment 23, the citizen’s ballot initiative passed in 2000, mandates that “base” per pupil funding increase each year by the rate of inflation. To determine how much each district will receive under the School Finance Act, that “base” is run through a complex formula that includes variables such as school district size, local cost-of-living, and the number of “at-risk” kids (eligible for free lunch) in a district.

These variables are called “factors” and they substantially increase average per pupil funding received by school districts to reflect the very different costs districts experience. The factors exist to address the increased per pupil costs that result when, for instance, a high percentage of pupils are from at-risk populations or when the necessary costs of running a school and hiring staff are divided among a small student population in a rural district.

In 2009, the legislature reinterpreted Amendment 23 to mean that only the base amount was covered by the mandatory increases — not the factors. Under this interpretation, the legislature could (and did) cut total spending from one year to the next and claim compliance with Amendment 23 — despite voter intent to increase funding.

Starting in 2009, in order to make across-the-board cuts from all districts, the legislature added a new “budget stabilization” or “negative factor” to the School Finance Act formula. In effect, the legislature now decides how much it wants to spend on school finance, and then adjusts the negative factor to meet that funding target.

As seen in the graph below, the NCSD has operated since 2009 on \$8,115,640 less revenue than ordinarily distributed, and because those cuts are all coming from the factors, which are designed to make school funding more fair, equitable, and responsive to actual costs, these cuts exacerbate inequities in Colorado’s school finance

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

structure, making educational opportunities even more dependent upon a student's zip code.

The \$1 billion negative factor has resulted in larger class sizes, narrower curriculum, reduced instruction time, and less support and individual attention for students.

Inclusive of mid-year, budget stabilization and negative factor, the below statistics demonstrate the year by year effect of the negative factor to the NCSD.

2009-10: (181,708)	2013-14: (1,221,796)
2010-11: (517,653)	2014-15: (1,042,692)
2011-12: (1,004,175)	2015-16: (978,913)
2012-13: (1,276,777)	2016-17: (950,265)
2017-2018: (\$975,660)	Total: (\$8,115,640)

To combat the negative factor in Colorado, many districts have sought a mill levy override, however the ability of the NCSD to recover lost funding via a voter-approved override is nominal.

- School districts have no control of what one mill can raise.
- One mill raises a low of less than **\$4,000** to a high of **over \$13,000,000**.
- The average dollars raised by 1 mill is about **\$500,000**.
- The median is **\$110,000**.

The **North Conejos School District** would raise only **\$30,429** per mill approved at the time of this audit.

STUDENT ENROLLMENT

Student enrollment, dictating the state equalization funding, has slightly declined since October of 2010 as follows:

2010: 1033
2011: 998
2012: 1039
2013: 1004
2014: 964
2015: 980
2016: 963
2017: 998.5
2018: 1,028

SECURE RURAL SCHOOLS (SRS) FUNDS

At the time of this audit, SRS funds have not been approved legislatively for the future. Ranging historically as a revenue of approximately \$159,136.35 to the district, no bill re-establishing this funding, in lieu of the area being heavily forested by federal land which provides no tax revenue to the district, has been approved.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizen, taxpayers, parents, Investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Superintendent's Office at P.O. Box 72 La Jara, CO 81140

NORTH CONEJOS SCHOOL DISTRICT RE-1J

BASIC FINANCIAL STATEMENTS

NORTH CONEJOS SCHOOL DISTRICT RE-1J
STATEMENT OF NET POSITION
June 30, 2018

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 7,165,601
Accounts Receivable	38,847
Property Tax Receivable	60,455
Due from Other Governments	90,768
Inventories	1,644
Total Current Assets	<u>7,357,315</u>
Noncurrent Assets	
Capital Assets	
Land	348,995
Land Improvements	877,847
Buildings	10,316,855
Equipment	2,176,104
Vehicles	1,583,265
Less Accumulated Depreciation	<u>(7,306,369)</u>
Total Noncurrent Assets	<u>7,996,697</u>
TOTAL ASSETS	<u>15,354,012</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	9,757,783
OPEB	<u>28,564</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>9,786,347</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	(6,869)
Accrued Salaries and Benefits	953,736
Unearned Grant Revenue	<u>70,658</u>
Total Current Liabilities	<u>1,017,525</u>
Noncurrent Liabilities	
Compensated Absences	84,838
Net Pension Liability	33,942,394
Net OPEB Liability	<u>775,100</u>
Total Noncurrent Liabilities	<u>34,802,332</u>
TOTAL LIABILITIES	<u>35,819,857</u>

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

NORTH CONEJOS SCHOOL DISTRICT RE-1J
STATEMENT OF NET POSITION
June 30, 2018

	<u>Primary Government Governmental Activities</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	2,427,471
OPEB	43,000
Unavailable Revenue- Property Tax	<u>60,455</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,530,926</u>
NET POSITION	
Net Investment in Capital Assets	7,996,697
Restricted for	
TABOR	285,000
Unrestricted	<u>(21,492,121)</u>
TOTAL NET POSITION	<u><u>\$ (13,210,424)</u></u>

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

NORTH CONEJOS SCHOOL DISTRICT RE-1J
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2018

					Net (Expense)
					Revenues and
					Changes in
					Net Position
		Program Revenues			
		Charges	Operating	Capital	
		for	Grants &	Grants &	
Functions/Programs	Expenses	Services	Contributions	Contributions	Primary
Government					
Governmental Activities					
Instructional Program	\$ 9,630,904	\$ -	\$ 856,699	\$ -	\$ (8,774,205)
Student Supporting Services	826,440	-	441,016	-	(385,424)
Instructional Staff Supporting Services	333,504	-	3,500	-	(330,004)
General Administration Supporting Services	815,323	-	-	-	(815,323)
School Administration Supporting Services	1,137,716	-	-	-	(1,137,716)
Business Supporting Services	60,440	-	-	-	(60,440)
Operations and Maintenance of Plant Services	832,843	-	-	-	(832,843)
Student Transportation Services	396,771	-	83,087	-	(313,684)
Central Supporting Services	254,858	-	-	-	(254,858)
Food Services	573,317	104,371	278,861	-	(190,085)
Facilities Acquisition and Construction Services	191,382	-	-	442,817	251,435
Total Governmental Activities	15,053,498	104,371	1,663,163	442,817	(12,843,147)
Total Primary Government	\$15,053,498	\$ 104,371	\$ 1,663,163	\$ 442,817	(12,843,147)
General Revenues					
Taxes					
General Property Taxes - Net					698,830
Specific Ownership Taxes					136,542
Other Taxes					1,910
State Equalization					7,169,996
Interest on Investments					34,184
Miscellaneous					31,581
Total General Revenues					8,073,043
Change in Net Position					(4,770,104)
Net Position, Beginning of Year					(7,656,343)
GASB 75 Restatement					(783,977)
Net Position, Beginning of Year Restated					(8,440,320)
Net Position, End of Year					\$(13,210,424)

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

NORTH CONEJOS SCHOOL DISTRICT RE -1J
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018

	GENERAL FUND	FOOD SERVICE FUND	CAPITAL RESERVE CAPITAL PROJECTS FUND	TOTAL NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 6,026,280	\$ 97,757	\$ 776,733	\$ 264,831	\$ 7,165,601
Accounts Receivable	35,592	3,255	-	-	38,847
Property Tax Receivable	60,455	-	-	-	60,455
Due from Other Governments	53,000	-	1,610	36,158	90,768
Due from Other Funds	82,492	-	-	10,301	92,793
Inventory	-	1,644	-	-	1,644
TOTAL ASSETS	\$ 6,257,819	\$ 102,656	\$ 778,343	\$ 311,290	\$ 7,450,108
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ (5,800)	\$ (1,069)	\$ -	\$ -	\$ (6,869)
Due to Other Funds	10,301	82,492	-	-	92,793
Accrued Salaries and Benefits	856,320	45,527	-	51,889	953,736
Unearned Grant Revenue	43,733	-	-	26,925	70,658
TOTAL LIABILITIES	904,554	126,950	-	78,814	1,110,318
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Tax	60,455	-	-	-	60,455
TOTAL DEFERRED INFLOWS OF RESOURCES	60,455	-	-	-	60,455
FUND BALANCE					
Nonspendable					
Inventory	-	1,644	-	-	1,644
Restricted					
TABOR 3% Reserve	285,000	-	-	-	285,000
Committed					
Capital Projects	-	-	778,343	-	778,343
GDPG	-	-	-	7,262	7,262
Pupil Activities	-	-	-	225,214	225,214
Assigned					
Unassigned	5,007,810	(25,938)	-	-	4,981,872
TOTAL FUND BALANCE	5,292,810	(24,294)	778,343	232,476	6,279,335
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 6,257,819	\$ 102,656	\$ 778,343	\$ 311,290	\$ 7,450,108

NORTH CONEJOS SCHOOL DISTRICT RE-1J
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total governmental fund balances	\$ 6,279,335
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,996,697
Deferred results and contributions to pension and OPEB plans made after the measurement date are recorded as expenditures in the governmental funds but must be deferred in the statement of net position	9,786,347
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(84,838)
Net pension and OPEB liabilities are not due and payable in the current period and are not reported in the funds.	(34,717,494)
Certain amounts related to the net pension and OPEB liability are deferred and amortized over time. These are not reported in the funds.	<u>(2,470,471)</u>
Net position of governmental activities	<u><u>\$ (13,210,424)</u></u>

NORTH CONEJOS SCHOOL DISTRICT RE-1J
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
For the Year Ended June 30, 2018

	GENERAL FUND	FOOD SERVICE FUND	CAPITAL RESERVE CAPITAL PROJECTS FUND	TOTAL NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local Sources	\$ 880,759	\$ 118,686	\$ 85,722	\$ 284,453	\$ 1,369,620
State Sources	8,020,194	8,354	4,525	51,262	8,084,335
Federal Sources	181,902	270,507	-	377,030	829,439
TOTAL REVENUES	9,082,855	397,547	90,247	712,745	10,283,394
EXPENDITURES					
Instructional Program	5,010,031	-	5,948	367,254	5,383,233
Student Supporting Services	240,715	-	-	334,937	575,652
Instructional Staff Supporting Services	155,837	-	-	14,772	170,609
General Admin. Supporting Services	671,567	-	-	14,862	686,429
School Admin. Supporting Services	581,422	-	-	-	581,422
Business Supporting Services	60,440	-	-	-	60,440
Operations and Maint. of Plant Services	552,787	-	131,338	-	684,125
Facilities Acq. and Const. Services	-	-	191,382	-	191,382
Student Transportation Services	370,292	-	-	-	370,292
Central Supporting Services	196,041	-	-	-	196,041
Food Services	-	463,776	-	-	463,776
TOTAL EXPENDITURES	7,839,132	463,776	328,668	731,825	9,363,401
Excess (Deficiency) of Revenues Over Expenditures	1,243,723	(66,229)	(238,421)	(19,080)	919,993
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	40,000	300,431	45,000	385,431
Transfers to Other Funds	(385,431)	-	-	-	(385,431)
TOTAL OTHER FINANCING SOURCES (USES)	(385,431)	40,000	300,431	45,000	-
Net Change in Fund Balance	858,292	(26,229)	62,010	25,920	919,993
FUND BALANCE, Beginning of Year	4,434,518	1,935	716,333	206,556	5,359,342
FUND BALANCE, End of Year	\$ 5,292,810	\$ (24,294)	\$ 778,343	\$ 232,476	\$ 6,279,335

NORTH CONEJOS SCHOOL DISTRICT RE-1J
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 919,993

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between capital outlay and depreciation in the current period.

Fixed asset additions	\$ 156,188	
Depreciation expense	<u>(454,111)</u>	(297,923)

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.

Compensated Absences	12,502
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Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. This item consists of the change in pension and OPEB expense.

(5,404,676)

Change in net position of governmental activities	<u><u>\$ (4,770,104)</u></u>
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NORTH CONEJOS SCHOOL DISTRICT RE-1J
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2018

	AGENCY FUND
ASSETS	
Cash in Bank	\$ 29,114
TOTAL ASSETS	\$ 29,114
LIABILITIES	
Held for Scholarships	29,114
TOTAL LIABILITIES	\$ 29,114

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

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*. The District's significant accounting policies are described below.

REPORTING ENTITY

Primary Government

North Conejos School District RE-1J is a public school as established by Colorado State Statute. The District is declared to be a corporate body with perpetual existence and in its name may hold property, sue and be sued, and be a party to contracts for any purpose authorized by law. Members of the school board are voted on at large by the registered, qualified electors of the District. Taxes are levied upon all taxable property within the District's boundaries by the County Commissioners. The County Treasurer collects the taxes and remits them to the school district. The District also receives State and Federal funds. The school board has the authority to issue bonds up to 20% of the latest assessed valuation of the taxable property in the District. The board also has authority to select the depository of school funds and acquire short-term loans.

Component Units

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District
- The organization is financially accountable to the District
- The organization receives or holds funds that are for the benefit of the District; and the District has access to a majority of the funds held; and the funds that are accessible are also significant to the District

Based on the aforementioned criteria, the North Conejos School District RE-1J has no component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the District, except for District fiduciary activity. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Mainly taxes and intergovernmental revenues support governmental activities.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and
- 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 in program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental funds each reported as a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

The District reports the following major governmental funds:

- The **General Fund** is the general operating fund of the District. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Food Service Fund** is used to account for the District's food service program. Revenues are derived from District contributions and student and adult charges. Expenses include the cost of sales and services, and administrative expenses.
- The **Capital Reserve Capital Projects Fund** is used to account for the acquisition of sites, buildings, equipment, and vehicles.

Fiduciary fund financial statements consist of the Agency Fund. The Agency Fund was established to record transactions relating to assets held by the District as an agent for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between governmental activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash in bank, certificates of deposit, and liquid investments with maturity of three months or less.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. The taxes are payable in two installments on February 28 and June 15 or in full on April 30. The District's property taxes are collected by the County Treasurer who remits monthly receipts to the District. Property tax revenue is recognized when received by the County Treasurer.

Uncollected property taxes that became an enforceable lien January 1, 2018, has been recorded in the financial statements as an asset and a corresponding deferred inflow of resources.

Receivables/Payables From Other District Funds

Balances that originate from current lending/borrowing arrangements between funds are referred to as "Due To/From Other Funds".

Inventories

Purchased inventories are stated at cost and consist of supplies and food to be used within one year. Donated inventory is priced at the U.S. Department of Agriculture established values.

USDA Commodities

The Food Service Fund receives donated commodities to use in meal preparation from the U.S. Department of Agriculture. The value of these commodities received during the year is shown as income, and the value of commodities used is shown as an expenditure.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, land improvements, buildings, equipment, vehicles, and construction in progress, are reported in the applicable governmental activities column in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000. Capital 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 asset or materially extend assets lives are not capitalized. When assets used in the operation of the governmental fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	5-20
Buildings	5-75
Equipment	3-20
Vehicles	4-15

Long-Term Obligations

Long-term debt and other long-term obligations are recorded as liabilities in the government-wide financial statements. In the fund financial statements for governmental fund types, debt proceeds are reported as an other financing source and debt payments are reported as debt service expenditures. The District records long-term debt of governmental funds at the face value.

Voluntary Early Retirement Bonus Plan

All employees shall be eligible to participate upon completion of 20 years of service, the last 10 of which are to be uninterrupted service to the District. Any employee with fewer than 20 years but at least 15 years of uninterrupted service to the District can elect early retirement with a loss of five percent for each year short of the minimum 20 years.

Compensated Absences

Certified staff of the District receive 10 days each contract year for personal leave and classified staff receive eight days. Personal leave may be accumulated without limit. Upon termination of employment for reasons other than retirement, an employee shall be paid for a maximum of 12 days of accrued personal leave not taken based on the current rate of pay for a substitute. In the event of death, such payment shall be made to the employee's estate. An employee who is eligible for retirement in accordance with the Public Employees Retirement Association shall be paid for one-fourth of all accrued personal leave not taken on the rate of pay for a substitute not to exceed payment for more than 30 days of accrued personal leave. A liability is accrued in the government-wide financial statements.

Unearned Grant Revenue

Revenues on grants, which are restricted by the grant document for specific purposes, are recognized as revenue only after eligible grant costs have been incurred. Grant funds received in excess of grant expenditures are recorded as unearned revenues.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This represents a consumption of net position that applied to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period.

In addition to liabilities, the balance sheet reports a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

Certain amounts related to pensions must be deferred.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Pensions

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

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

OPEB

The District participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position should be displayed in the following three components:

- *Net investment in capital assets* – consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets consist of assets that have limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Unrestricted* – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Fund Balance

Fund balances are reported by classification based on the extent to which the District is bound to honor constraints for the specific purposes on which amounts in the fund can be spent. Fund balances are classified in one of the following five categories:

- *Nonspendable Fund Balance* – amounts that cannot be spent because they are not in spendable form, such as inventory and prepaid expenditures.
- *Restricted Fund Balance* – amounts restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* – amounts that can only be used for specific purposes as a result of constraints imposed through adopted resolution by the Board of Education, the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of action. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
- *Assigned Fund Balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the Board of Education or by an official or body to which governing body delegates the authority.
- *Unassigned Fund Balance* – amounts that are available for any purpose; these amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position/fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, and 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, unless the Board of Education has provided otherwise in its commitment or assignment actions.

Encumbrances

The District records purchase orders in the accounting system. Unfulfilled purchase commitments outstanding at the end of the budget year are rebudgeted in the succeeding year. End of the year fund balance intended to be used in the succeeding year is reported as assigned fund balance.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain amounts from FY 2017 have been reclassified to conform to the FY 2018 financial statement presentation.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

New Accounting Pronouncements

During 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB No. 75), which revises and establishes new financial reporting requirements for most governments that provide their employees with postemployment benefits other than pensions. These benefits are referred to as other postemployment benefits (OPEB).

GASB No. 75 requires cost-sharing employers participating in the PERA program, such as the District to record their proportionate share, as defined in GASB No. 75, of PERA's unfunded OPEB, specifically the Health Care Trust Fund (HCTF). 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. The District has no legal obligation to fund this HCTF shortfall nor does it have any ability to affect funding, benefit or annual required contribution decisions made by PERA or the General Assembly. The requirement of GASB No. 75 to record a portion of PERA's unfunded liability negatively impacted the District's beginning net position by \$783,977. The OPEB liability recorded as of June 30, 2018 was \$775,100. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

North Conejos School District RE-1J follows the procedures set forth in the Colorado School District Budget Law when preparing annual budgets for each fund. Budget procedures include:

- 1) Preparation of budget documents by administrative staff shall be submitted to the Board no later than June 1 of each year.
- 2) Publication of a notice stating that the budget is available for public inspection.
- 3) Discussion of the budget in a meeting open to the public.
- 4) Adoption of the budget in a public meeting by appropriate resolution.

Formal budgetary integration is employed as a management control device for all funds of the District. All fund budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

The total expenditures for each fund cannot exceed the budgeted amount unless a supplemental appropriation is adopted. All budget amounts presented in the accompanying supplementary information reflect the original budget and the final amended budget, if applicable.

Stewardship

Expenditures exceeded budgeted appropriations in the Food Service Fund and Agency Fund by \$5,276 and \$8,000, respectively, during FY2018. This may be a violation of Colorado Revised State Statutes 22-44-115(1).

The Food Service Fund has a deficit fund balance of \$24,294 as of June 30, 2018. This may be a violation of Colorado Revised State Statute 22-44-102(7.3).

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND DEPOSITS

A summary of Cash and Deposits for the District are as follows:

Cash in Bank	\$ 6,119,760
Cash on Hand	225
ColoTrust Investments	1,074,730
Less: amounts related to Agency Funds	<u>(29,114)</u>
Total cash and deposits on the Statement of Net Position	<u><u>\$ 7,165,601</u></u>

Cash and Deposits

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

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds 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 the aggregate uninsured deposits.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$5,256,923 of the District's bank balance of \$6,337,362 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institution through PDPA.

Investments

Colorado Statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include the following:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper holding the highest credit rating category and with a maturity within 180 days
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Corporate or bank debt issued by eligible corporations or banks

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Fair Value – Fair value investments classified at Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fair value investments classified as Level 2 of the fair value hierarchy are valued using the active market rates for the underlying securities. Fair value investments classified as Level 3 of the fair value hierarchy are valued using non-observable inputs.

COLOTRUST is a money market investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. The pool operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by the U.S. Treasury and U.S. Agency securities. A designated custodial 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 Poors, and maintains a constant net asset value of \$1 per share. Financial statements for COLOTRUST are available at www.colotrust.com. The total COLOTRUST investment was valued at \$1,074,730 at June 30, 2018 with a credit rating of AAAM by Standard & Poors.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligation. State statutes limit investments in U.S. Agency securities to the highest rating issued by National Recognized Statistical Rating Organizations (NRSROs).

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has not established a policy limiting the investment in any type of security and deems it unnecessary at this time.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

General Fund	\$ 35,592
Food Service Fund	3,255
	<u>\$ 38,847</u>

NOTE 5 DUE FROM OTHER GOVERNMENTS

Intergovernmental receivables include amounts due from grantors for specific program grants. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred. As of June 30, 2018, the District had \$90,768 due from Federal, State, and Local governments, reflected as due from other governments in the accompanying basic financial statements.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Receivables/Payables

The District reports interfund balances between many of its funds. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances are generally expected to be repaid within one year of the financial statement date.

Interfund receivable and payable balances at June 30, 2018, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 82,492
Governmental Designated Purpose Grants Fund	General Fund	10,301
		<u>\$ 92,793</u>

Interfund Transfers

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ 40,000
Pupil Activity Fund	General Fund	45,000
Capital Reserve Capital Projects Fund	General Fund	300,431
		<u>\$ 385,431</u>

The General Fund transfers were made to subsidize the Food Service Fund, Pupil Activity Fund, and Capital Reserve Capital Projects Fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 CAPITAL ASSETS

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

	Balance 06/30/2017	Additions	Deletions	Balance 06/30/2018
<i>Governmental Activities</i>				
Capital Assets Not Being Depreciated				
Land	\$ 348,995	\$ -	\$ -	\$ 348,995
Construction in progress	593,937	-	593,937	-
Total capital assets not being depreciated	<u>942,932</u>	<u>-</u>	<u>593,937</u>	<u>348,995</u>
Capital Assets Being Depreciated				
Land Improvements	848,622	29,225	-	877,847
Buildings	9,716,970	599,885	-	10,316,855
Equipment	2,170,104	6,000	-	2,176,104
Vehicles	1,468,250	115,015	-	1,583,265
Total Capital Assets Being Depreciated	<u>14,203,946</u>	<u>750,125</u>	<u>-</u>	<u>14,954,071</u>
Less: Accumulated Depreciation For				
Land Improvements	415,565	49,787	-	465,352
Buildings	3,986,661	219,532	-	4,206,193
Equipment	1,275,182	122,074	-	1,397,256
Vehicles	1,174,850	62,718	-	1,237,568
Total Accumulated Depreciation	<u>6,852,258</u>	<u>454,111</u>	<u>-</u>	<u>7,306,369</u>
Net Capital Assets being depreciated	<u>7,351,688</u>	<u>296,014</u>	<u>-</u>	<u>7,647,702</u>
Total Capital Assets	<u><u>\$ 8,294,620</u></u>	<u><u>\$ 296,014</u></u>	<u><u>\$ 593,937</u></u>	<u><u>\$ 7,996,697</u></u>

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

<i>Governmental Activities</i>	
Instructional Program	\$ 277,256
Student Supporting Services	29,994
General Administration Supporting Services	6,859
Operations and Maintenance of Plant Services	65,770
Student Transportation Services	62,718
Food Services	11,514
Total depreciation expense - governmental activities	<u><u>\$ 454,111</u></u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 ACCRUED SALARIES AND BENEFITS

The teachers, administrators, and the administrative staff are employed under nine, ten, and eleven month contracts. All District employees are paid on a twelve-month basis, therefore, a difference exists between the actual amount of salaries earned under the contract and the amount paid. The difference between salaries earned and paid, including the District's share of benefits, has been accrued in the financial statements in the amount of \$953,736.

NOTE 9 OPERATING LEASES

The District has entered into an operating lease arrangement for several copy machines. This lease is considered for accounting purposes an operating lease. Lease expenses for the year totaled \$32,273.

NOTE 10 LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

Long-term liability balances for the year ended June 30, 2018, were as follows:

	Balance			Balance	Due
	06/30/2017	Additions	Deletions	06/30/2018	Within
					One Year
<i>Governmental Activities</i>					
Compensated Absences	97,340	-	12,502	84,838	-
Total Governmental Activities	<u>\$ 97,340</u>	<u>\$ -</u>	<u>\$ 12,502</u>	<u>\$ 84,838</u>	<u>\$ -</u>

NOTE 11 DEFINED BENEFIT PENSION PLAN

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 structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714. The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

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

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

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

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

Contributions 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:

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

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

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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 \$908,251, for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$33,942,394 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The District's proportion of the net pension liability was based on District contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, District's proportion was 0.10 percent, which was a decrease of 0.005 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the District recognized pension expense of \$5,399,115. 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	\$ 624,056	\$ -
Changes of assumptions or other inputs	8,666,753	54,999
Net difference between projected and actual earnings on pension plan investments	-	1,332,950
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	1,039,522
Contributions subsequent to the measurement date	466,974	-
Total	<u>\$ 9,757,783</u>	<u>\$ 2,427,471</u>

\$466,974 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	4,758,023
2020	2,688,492
2021	(81,716)
2022	(501,460)
Thereafter	-

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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;	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

Healthy post-retirement mortality assumptions reflect the RP-2014 White Collar Employee 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, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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

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

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

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target 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	<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%.

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

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

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- 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.

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

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	<u>\$ 42,875,017</u>	<u>\$ 33,942,394</u>	<u>\$ 26,663,327</u>

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

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

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

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

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

At June 30, 2018, the District reported a liability of \$33,942,394 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the District proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$15,334,879

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 \$15,844,522 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

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NOTE 12 OTHER POSTEMPLOYMENT BENEFITS

General Information about the OPEB Plan

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

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.

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 are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

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

PERA Benefit Structure

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

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

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.

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Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$49,059 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$775,100 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's 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 0.059 percent, which was a decrease of 0.003 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the District recognized OPEB expense of \$5,561. At June 30, 2018, District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,665	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	12,967
Changes of assumptions or other inputs	-	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	30,033
Contributions subsequent to the measurement date	24,899	
Total	<u>\$ 28,564</u>	<u>\$ 43,000</u>

\$24,899 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,	
2019	(8,422)
2020	(8,422)
2021	(8,422)
2022	(8,422)
2023	(5,180)
Thereafter	(466)

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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

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%

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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

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

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

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

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

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

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

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

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

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

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

Asset Class	Target Allocation	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%.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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

	<u>1% Decrease in Trend Rates</u>	<u>Current Trend Rates</u>	<u>1% Increase in Trend Rates</u>
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	\$871,457	\$775,100	\$692,858

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

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

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

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

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	<u>\$ 753,774</u>	<u>\$775,100</u>	<u>\$ 800,786</u>

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

NOTE 13 DEFINED CONTRIBUTION PENSION PLAN

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

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions, employer contributions, and investment earnings. For the year ended June 30, 2018 program members contributed \$12,760 for the Voluntary Investment Program.

NOTE 14 JOINT VENTURES

The District participates in the following entity. This joint venture does not meet the criteria for inclusion within the reporting entity because the following entity:

- is financially independent and responsible for its own financing deficits and entitled to its own surpluses,
- has a separate governing board from that of the District,
- has a separate management which is responsible for day-to-day operations and is accountable to the separate governing board,
- has governing boards and management with the ability to significantly influence operations by approving budgetary requests and adjustments, signing contracts, hiring personnel, exercising control over facilities and determining the outcome for disposition of matters affecting the recipients of services provided, and
- has absolute authority over all funds and fiscal responsibility including budgetary responsibility and reporting to state agencies and controls fiscal management.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

San Luis Valley Board of Cooperative Educational Services (BOCES)

The BOCES is an organization that provides member districts educational services at a shared lower cost per district. The Board of the BOCES is selected from the elected members of the District Boards. The District has one member on the Board. This Board has final authority for all budgeting and financing of the joint venture. The District's share of the joint venture is approximately 7% at June 30, 2018. Complete separate financial statements may be obtained from BOCES.

Colorado School Districts' Self-Insurance Pool

The District belongs to the Colorado School Districts' Self-Insurance Pool. The Pool was established by the Colorado Association of School Boards (CASB) to provide insurance coverage to participants in the areas of General Liability, Errors and Omissions, Automobile Liability, Auto Physical Damage, Auto Personal Injury Protection, Real and Personal Property, Crime, and other coverage. The Board of Directors is composed of eight persons, several of who are appointed by the Board of Directors of CASB and the Executive Director of CASB. The pool is managed by an independent manager chosen by the Board of Directors. Each member's initial contribution and subsequent contributions are determined by the Pool based on factors including, but not limited to, the aggregate Pool claims, the cost of administrative and other operating expenses, the number of participants, the adequacy of both Operating and Reserve Funds and other factors touching on the status of the Pool or an individual participant, and as approved by the Colorado Insurance Commissioner.

As the District did not exercise oversight responsibility nor have sufficient control over Pool activities, the Pool is not a component unit of the District and only the District's share of contributions to the Pool is recorded as expenditures in the General Fund. The District's share in the Pool is not determinable from current information, but is estimated to be less than 1%. The District's share, if calculated, would not be material to the Pool's financial information at June 30, 2018. Complete separate financial statements may be obtained from the Colorado School Districts' Self-Insurance Pool.

NOTE 15 TABOR EMERGENCY RESERVE

Colorado voters passed an amendment to the State constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On November 6, 2001 voters approved a ballot measure authorizing the District to collect, retain and expend all revenues including grants and other funds collected during 2000-01 budget year and each subsequent year from any source, notwithstanding the limitations of Article X, Section 20 of the Colorado constitution, provided, however, that no property tax mill levy be increased at any time nor shall any new tax be imposed without the prior approval of the voters.

The amendment also requires that Emergency Reserves be established. These reserves must be at least three percent of fiscal year spending. This Emergency Reserve has been presented as restricted fund balance in the General Fund balance sheet and a restricted net position in the government-wide statement of net position. The entity is not allowed to use the Emergency Reserve to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 16 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by Colorado School District's Self Insurance Pool. There have been no significant reductions in insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage for the current year or the three prior years.

Level funding Health Plan

Effective July 1, 2014, the District established a self-funded health benefit program for its employees. The benefit program administrator, CIGNA, is responsible for the approval, processing, and payment of claims. The District remits monthly payments to the Administrator for claims, administrative fees, and stop-loss costs. The benefit program reports on a fiscal year ending June 30, 2018. The program is accounted for in the General Fund of the District. The District has purchased stop-loss coverage for amounts in excess of \$40,000 per individual and aggregate coverage subject to a 120% corridor and cumulative attachment limits calculated each month.

The costs associated with the health plan are reported as health insurance expenses for the employee paid premiums and a payroll deduction for the employees. The District does not report a liability based on the requirements of Governmental Accounting Standards Board Statement No. 10, as the plan is a level-funding health plan in which monthly payments to the Third Party Administrator are fixed.

NOTE 17 AGENCY FUND BUDGET AND ACTUAL

The District is required by the Colorado School District Budget Law to budget for the District's Agency Fund. In accordance with GAAP, however, there is not a statement of revenues, expenses and changes in net position for agency funds to report the budget information, because agency funds do not recognize revenues, expenses or net position in accordance with GAAP. Therefore, the budget and actual amounts for agency funds received and disbursed for the year ended June 30, 2018, are presented below:

	Budget			
	Original	Final	Actual	Variance
Beginning Balance	\$ -	\$ -	\$ 31,564	\$ 31,564
Agency Fund Receipts	5,000	5,000	10,550	5,550
Agency Fund Disbursements	<u>(5,000)</u>	<u>(5,000)</u>	<u>(13,000)</u>	<u>(8,000)</u>
Ending Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,114</u>	<u>\$ 29,114</u>

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 18 COMMITMENTS AND CONTINGENCIES

Litigation

Various claims and lawsuits are pending against the District. After consideration of applicable insurance policy coverage and relative merits of each claims or lawsuit, it is the opinion of District counsel that the ultimate liability resulting from these actions, if any, will not require additional accrued reserves and will not have a material adverse financial effect on the District.

Grants

The District participates in federal grant programs subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NORTH CONEJOS SCHOOL DISTRICT RE-1J

REQUIRED SUPPLEMENTARY INFORMATION

A budgetary comparison schedule is required for the General Fund and, if applicable, each of the District's major special revenue funds. In addition, pension and OPEB plan contributions and the District's proportionate share of the net pension and OPEB liability is required to supplement the basic financial statements.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 748,284	\$ 748,284	\$ 880,759	\$ 132,475
State Sources	7,501,711	7,696,632	8,020,194	323,562
Federal Sources	3,000	25,000	181,902	156,902
TOTAL REVENUES	8,252,995	8,469,916	9,082,855	612,939
EXPENDITURES				
Instructional Program	5,115,469	5,256,348	5,010,031	246,317
Student Supporting Services	196,180	196,180	240,715	(44,535)
Instructional Staff Supporting Services	187,088	179,088	155,837	23,251
General Administration Supporting Services	579,927	628,127	671,567	(43,441)
School Administration Supporting Services	600,019	600,019	581,422	18,597
Business Supporting Services	57,700	57,700	60,440	(2,740)
Operations and Maintenance of Plant Services	548,211	554,211	552,787	1,424
Student Transportation Services	348,877	353,877	370,292	(16,415)
Central Supporting Services	213,676	199,176	196,041	3,135
TOTAL EXPENDITURES	7,847,147	8,024,726	7,839,132	185,594
Excess (deficiency) of revenues over expenditures	405,849	445,190	1,243,723	798,533
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(378,848)	(445,190)	(385,431)	59,759
TOTAL OTHER FINANCING SOURCES (USES)	(378,848)	(445,190)	(385,431)	59,759
Net Change in Fund Balance	27,000	-	858,292	858,292
Fund Balance, Beginning of Year	-	-	4,434,518	4,434,518
Fund Balance, End of Year	\$ 27,000	\$ -	\$ 5,292,810	\$ 5,292,810

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP.

This schedule is presented on the GAAP basis.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 112,000	\$ 112,000	\$ 118,686	\$ 6,686
State Sources	11,500	11,500	8,354	(3,146)
Federal Sources	295,000	295,000	270,507	(24,493)
TOTAL REVENUES	418,500	418,500	397,547	(20,953)
EXPENDITURES				
Supporting Services				
Food Services				
Salaries	156,631	156,631	156,072	559
Fringe Benefits	94,953	94,953	87,645	7,308
Purchased Professional Services	-	-	247	(247)
Other Purchased Services	-	-	77	(77)
Supplies	198,228	198,228	219,735	(21,507)
Equipment	8,688	8,688	-	8,688
TOTAL EXPENDITURES	458,500	458,500	463,776	(5,276)
Excess (deficiency) of revenues over expenditures	(40,000)	(40,000)	(66,229)	(26,229)
OTHER FINANCING SOURCES (USES)				
Transfers to/from Other Funds	40,000	40,000	40,000	-
TOTAL OTHER FINANCING SOURCES (USES)	40,000	40,000	40,000	-
Net Change in Fund Balance	-	-	(26,229)	(26,229)
Fund Balance, Beginning of Year	-	-	1,935	1,935
Fund Balance, End of Year	\$ -	\$ -	\$ (24,294)	\$ (24,294)

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP.

This schedule is presented on the GAAP basis.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PERA PENSION PLAN
For the Years Ended June 30,

	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.1049663718%	0.1098023733%	0.1139017026%	0.1204665369%
District's proportionate share of the net pension liability (asset)	\$ 33,942,394	\$ 32,692,413	\$ 17,420,461	\$ 16,327,262
District's covered payroll	\$ 4,841,973	\$ 4,928,124	\$ 4,969,663	\$ 5,046,683
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701%	663%	351%	324%
Plan fiduciary net position as a percentage of the total pension liability	43.96%	43.1%	59.2%	62.8%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the District presents information for those years for which information is available.

Notes to Required Supplementary Information:

See Note 11 in the accompanying Notes to the Basic Financial Statements for changes to assumptions or other inputs used.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF DISTRICT CONTRIBUTIONS
PERA PENSION PLAN
For the Years Ended June 30,

	2018	2017	2016	2015
Contractually required contribution	\$ 908,251	\$ 901,605	\$ 877,676	\$ 847,190
Contributions in relation to the contractually required contribution	<u>(908,251)</u>	<u>(901,605)</u>	<u>(877,676)</u>	<u>(847,190)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,809,692	\$ 4,904,788	\$ 4,949,235	\$ 5,018,478
Contributions as a percentage of covered payroll	18.88%	18.38%	17.73%	16.88%

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the District presents information for those years for which information is available.

Notes to Required Supplementary Information:

See Note 11 in the accompanying Notes to the Basic Financial Statements for changes to assumptions or other inputs used.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
COLORADO PERA HEALTHCARE TRUST FUND
For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.0596414661%	0.0624129499%
District's proportionate share of the net OPEB liability (asset)	\$ 775,100	\$ 809,205
District's covered payroll	\$ 4,841,973	\$ 4,928,124
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16%	16%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%	20.07%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the District presents information for those years for which information is available.

Notes to Required Supplementary Information:

There have not been any changes in assumptions or other inputs.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF DISTRICT CONTRIBUTIONS
COLORADO PERA HEALTHCARE TRUST FUND
For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 49,059	\$ 50,029
Contributions in relation to the contractually required contribution	<u>(49,059)</u>	<u>(50,029)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,809,692	\$ 4,904,788
Contributions as a percentage of covered payroll	1.02%	1.02%

*** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled the District presents information for those years for which information is available.

Notes to Required Supplementary Information:

There have not been any changes in assumptions or other inputs.

NORTH CONEJOS SCHOOL DISTRICT RE-1J

SUPPLEMENTARY INFORMATION

The combining and individual fund financial schedules represent the second level of financial reporting for the District. These schedules present more detailed information for the individual funds in a format that segregates information by fund type.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report the proceeds of special revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Governmental Designated Purpose Grants Fund – Used to account for financial transactions for grants received for designated programs funded by federal, state, or local governments.

Pupil Activity Fund – Used to record financial transactions related to school-sponsored pupil intrascholastic and interscholastic athletic and other related activities. These activities are supported in whole or in part by revenues from pupils, gate receipts, and other fundraising activities.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2018

	SPECIAL REVENUE FUNDS		
	GOVERNMENTAL DESIGNATED PURPOSE GRANTS FUND	PUPIL ACTIVITY FUND	TOTAL NONMAJOR FUNDS
ASSETS			
Cash and Cash Equivalents	\$ 39,617	\$ 225,214	\$ 264,831
Due From Other Governments	36,158	-	36,158
Due From Other Funds	10,301	-	10,301
TOTAL ASSETS	\$ 86,076	\$ 225,214	\$ 311,290
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accrued Salaries and Benefits	\$ 51,889	\$ -	\$ 51,889
Unearned Grant Revenue	26,925	-	26,925
TOTAL LIABILITIES	78,814	-	78,814
FUND BALANCE			
Committed			
GDPG	7,262	-	7,262
Pupil Activities	-	225,214	225,214
TOTAL FUND BALANCE	7,262	225,214	232,476
TOTAL LIABILITIES AND FUND BALANCE	\$ 86,076	\$ 225,214	\$ 311,290

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018

	SPECIAL REVENUE FUNDS		
	GOVERNMENTAL DESIGNATED PURPOSE GRANTS FUND	PUPIL ACTIVITY FUND	TOTAL NONMAJOR FUNDS
REVENUES			
Local Sources	\$ 24	\$ 284,429	\$ 284,429
State Sources	51,262	-	51,262
Federal Sources	377,030	-	377,030
TOTAL REVENUES	428,316	284,429	712,721
EXPENDITURES			
Instructional Program	367,254	-	367,254
Student Supporting Services	28,229	306,708	334,937
Instructional Staff Supporting Services	14,772	-	14,772
General Administration Supporting Services	14,862	-	14,862
TOTAL EXPENDITURES	425,117	306,708	731,825
Excess (deficiency) of revenues over expenditures	3,199	(22,279)	(19,104)
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	-	45,000	45,000
TOTAL OTHER FINANCING SOURCES (USES)	-	45,000	45,000
Net Change in Fund Balance	3,199	22,721	25,920
Fund Balance, Beginning of Year	4,063	202,493	206,556
Fund Balance, End of year	\$ 7,262	\$ 225,214	\$ 232,476

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL DESIGNATED PURPOSE GRANTS FUND
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ -	\$ -	\$ 24	\$ 24
State Sources	35,316	65,593	51,262	(14,331)
Federal Sources	437,036	423,979	377,030	(46,949)
TOTAL REVENUES	472,353	489,573	428,316	(61,257)
EXPENDITURES				
Instructional Program	380,749	426,520	367,254	59,266
Student Supporting Services	41,168	23,248	28,229	(4,981)
Instructional Staff Supporting Services	27,250	20,777	14,772	6,005
General Administration Supporting Services	23,186	19,028	14,862	4,166
TOTAL EXPENDITURES	472,353	489,573	425,117	64,456
Net Change in Fund Balance	-	-	3,199	3,199
Fund Balance, Beginning of Year	-	-	4,063	4,063
Fund Balance, End of Year	\$ -	\$ -	\$ 7,262	\$ 7,262

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
PUPIL ACTIVITY FUND
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources				
Class and Club Activities	\$ 205,000	\$ 305,000	\$ 284,429	\$ (20,571)
TOTAL REVENUES	<u>205,000</u>	<u>305,000</u>	<u>284,429</u>	<u>(20,571)</u>
EXPENDITURES				
Student Support Services	<u>250,000</u>	<u>350,000</u>	<u>306,708</u>	<u>43,292</u>
TOTAL EXPENDITURES	<u>250,000</u>	<u>350,000</u>	<u>306,708</u>	<u>43,292</u>
Excess (deficiency) of revenues over expenditures	<u>(45,000)</u>	<u>(45,000)</u>	<u>(22,279)</u>	<u>22,721</u>
OTHER FINANCING SOURCES (USES)				
Transfers to/from Other Funds	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Net Change in Fund Balance	-	-	22,721	22,721
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>202,493</u>	<u>202,493</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,214</u>	<u>\$ 225,214</u>

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CAPITAL RESERVE CAPITAL PROJECTS FUND
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local Sources	\$ 3,960	\$ 3,960	\$ 85,722	\$ 81,762
State Sources	350,000	350,000	4,525	(345,475)
TOTAL REVENUES	353,960	353,960	90,247	(263,713)
EXPENDITURES				
Current Expenditures				
Instructional Program	-	-	5,948	(5,948)
Operation and Maintenance of Plant and Equipment	85,000	85,000	131,338	(46,338)
Facilities Acquisition and Construction Services	606,570	629,150	191,382	437,768
TOTAL EXPENDITURES	691,570	714,150	328,668	385,482
Excess (Deficiency) of Revenues Over Expenditures	(337,610)	(360,190)	(238,421)	121,769
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	360,190	360,190	300,431	(59,759)
TOTAL OTHER FINANCING SOURCES (USES)	360,190	360,190	300,431	(59,759)
Net Change in Fund Balance	22,580	-	62,010	62,010
Fund Balance, Beginning of Year	-	-	716,333	716,333
Fund Balance, End of Year	\$ 22,580	\$ -	\$ 778,343	\$ 778,343

NORTH CONEJOS SCHOOL DISTRICT RE-1J

SINGLE AUDIT SECTION

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor and Number</i>	<i>Federal Expenditures(\$)</i>
Child Nutrition Cluster			
United States Department of Agriculture			
School Breakfast Program	10.553	Colorado Department of Education,4553	\$ 53,277
Total School Breakfast Program			53,277
National School Lunch Program	10.555	Colorado Department of Education,4555	192,713
National School Lunch Program	10.555	Colorado Department of Human Services,4555	24,517
Total National School Lunch Program			217,230
Total Child Nutrition Cluster			270,507
Forest Service Schools and Roads Cluster			
United States Department of Agriculture			
Schools and Roads - Grants to States	10.665	Colorado Department of Treasury and Conejos County Treasurer,7665	159,150
Total Forest Service Schools and Roads Cluster			159,150
Total United States Department of Agriculture			429,657
Total All Clusters			429,657
Other Programs			
Department of Education			
Title I Grants to Local Educational Agencies	84.010	Colorado Department of Education,4010	289,839
Total Title I Grants to Local Educational Agencies			289,839
Career and Technical Education -- Basic Grants to States	84.048	Colorado Community Colleges and Trinidad State Junior College,4048	22,752
States			22,752
Rural Education	84.358	Colorado Department of Education,6358	15,103
Total Rural Education			15,103
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	Colorado Department of Education,4367	63,301
Total Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)			63,301
Race to the Top - Early Childhood Readiness Assessment	84.412	Colorado Department of Education,5412	587
Total Race to the Top- Early Childhood Readiness Assessment			587
Student Support and Academic Enrichment Program	84.424	Colorado Department of Education,4424	8,200
Total Student Support and Academic Enrichment Program			8,200
Total Department of Education			399,782
Total Other Programs			399,782
Total Expenditures of Federal Awards			\$ 829,439

NORTH CONEJOS SCHOOL DISTRICT RE-1J
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of North Conejos School District RE-1J under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of North Conejos School District RE-1J, it is not intended to and does not present the financial position, changes in net position, or cash flows of North Conejos School District RE-1J.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through identifying numbers are presented where available. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance for the year ended June 30, 2018. In addition, the District did not pass-through federal funds to subrecipients.

NOTE 3: FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of commodities received and disbursed.



Wall,
Smith,
Bateman Inc.

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

To the Board of Education
North Conejos School District RE-1J
La Jara, 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 North Conejos School District RE-1J (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a significant deficiency.

Certified Public Accountants

700 Main Street, Suite 200 PO Box 809 Alamosa, CO 81101 | 719-589-3619 | f 719-589-5492 | www.wsbcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying corrective action plan. 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.



Wall, Smith, Bateman Inc.
Alamosa, Colorado

December 11, 2018

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



Wall,
Smith,
Bateman Inc.

To the Board of Education
North Conejos School District RE-1J
La Jara, Colorado

Report on Compliance for Each Major Federal Program

We have audited North Conejos School District RE-1J'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 auditors' 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.

Auditors' 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.

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA 10.553 and CFDA 10.555, Child Nutrition Cluster for Eligibility, Reporting, and Special Tests and Provisions as described in Finding 2018-002. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Certified Public Accountants

700 Main Street, Suite 200 PO Box 809 Alamosa, CO 81101 | 719-589-3619 | f 719-589-5492 | www.wsbcpa.com

Qualified Opinion on the Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, North Conejos School District RE-1J complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a material weakness.

The District's response to the internal control over compliance and noncompliance finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

A handwritten signature in blue ink that reads "Wall, Smith, Bateman Inc." in a cursive script.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

December 11, 2018

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- | | | |
|--|----------------|--------------------|
| ▪ Material weakness(es) identified? | _____yes | _____X_____no |
| ▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____X_____yes | _____none reported |
| ▪ Noncompliance material to financial statements noted? | _____yes | _____X_____no |

Federal Awards

Internal control over major programs:

- | | | |
|--|----------------|--------------------------|
| ▪ Material weakness(es) identified? | _____X_____yes | _____no |
| ▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____yes | _____X_____none reported |

Type of auditors’ report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

_____X_____yes _____no

Identification of major programs:

CFDA Number(s)

10.553 and 10.555
84.010

Name of Federal Program or Cluster

Child Nutrition Cluster
Title I - Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee?

_____yes _____X_____no

Section II – Financial Statement Findings

Finding 2018-001: Internal Control Over Financing Reporting

Type of finding: Internal Control (significant deficiency)

Condition/Cause: The District does not have a complete system of internal control to prevent and detect financial misstatements.

Criteria: A system of internal control includes the design, documentation, and monitoring of control activities over the application of accounting principles, compliance with statutory provisions, antifraud programs, non-routine transactions, financial statements preparation, and safeguarding of assets.

NORTH CONEJOS SCHOOL DISTRICT RE-1J
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018

Effect: As a result of this condition the following areas were affected:

1. Audit adjustments were proposed to properly state the General Fund, Governmental Designated Purpose Grants Fund, and Food Service Fund in the District financial statements as of June 30, 2018, in accordance with generally accepted accounting principles.
2. Food services revenues receipted and recorded in Infinite Campus did not agree to revenues recorded in Specialized Data Systems (SDS), the District's general ledger system.

Recommendation: The District should reconcile year end account balances and record necessary adjustments when performing financial close and reporting at year end. The District should ensure that revenues recorded in the food service software reconciles to the revenue recorded in the general ledger.

Management's Response: See corrective action plan

Section III – Federal Award Findings and Questioned Costs

Finding 2018-002: Child Nutrition Cluster, CFDA No. 10.553 and 10.555
United States Department of Agriculture

Passed through Colorado Department of Education and Colorado Department of Human Services

Compliance Requirements: Eligibility, Reporting, Special Tests and Provisions

Grant No.: 4553 and 4555

Type of finding: Internal Control over Compliance (material weakness) and Compliance (material noncompliance)

Condition: The Food Service Director has sole responsibility for free and reduced price meal eligibility determinations and related funding requests as well as completing the required verification process. The District did not complete the verification process and submission of the verification data accurately and timely to the Colorado Department of Education.

Cause: The District does not have a complete system of internal control to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Criteria: A system of internal controls over compliance includes the design, documentation, and ongoing monitoring of control activities to provide reasonable assurance that only eligible children receive assistance under federal award programs, and that amounts provided on behalf of eligible children were calculated in accordance with program requirements.

Questioned Costs: \$0

Effect: The lack of segregation of duties creates potential for failure to detect and correct noncompliance with eligibility, reporting, and special tests and provisions requirements.

Recommendation: The District should develop a system of internal control over compliance that includes segregation of duties in the eligibility determination process to include a supervisory level review of a sample of approved and denied applications made in accordance with eligibility program requirements. Monthly funding requests submitted to the Colorado Department of Education should be reviewed for accuracy and approved for submission by senior-level finance department staff. Additionally, the verification process and data requirements should be completed accurately and submitted timely to the Colorado Department of Education to comply with verification requirements.

Grantee's Response: See corrective action plan.

**NORTH CONEJOS SCHOOL DISTRICT RE-1J
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018**

Section II – Financial Statement Findings

**Finding 2017-001: Internal Control Over Financial Reporting
(Repeat of Finding 2016-001)**

Type of finding: Internal Control (material weakness)

Condition/Cause: The District does not have a complete system of internal control to prevent or detect financial misstatements.

Status: Partially Implemented. See Finding 2018-001.

North Conejos School District RE 1 - J

P.O. Box 72
La Jara, CO 81140
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OFFICE OF SUPERINTENDENT

Phone (719) 274-5174
Fax (719) 274-5621



CORRECTIVE ACTION PLAN

Oversight Agency - U.S. Department of Agriculture

North Conejos School District RE-1J respectfully submits the following corrective action plan for the year ended June 30, 2018.

Independent Accountants: Wall, Smith, Bateman Inc.
Certified Public Accountants
700 Main Street, Suite 200, P.O. Box 809
Alamosa, CO 81101

Audit period: Year ended June 30, 2018

The findings from the June 30, 2018 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

Section II – Financial Statement Findings

Finding 2018-001: Internal Control Over Financing Reporting

Type of finding: Internal Control (significant deficiency)

Recommendation: The District should reconcile year end account balances and record necessary adjustments when performing financial close and reporting at year end. The District should ensure that revenues recorded in the food service software reconciles to the revenue recorded in the general ledger.

Action Taken: The Finance Director will review year-end account balances and record necessary adjustments when performing the end of year reporting. The Finance Director and Food Service Director will ensure that revenue recorded in the food service software reconciles to the revenue recorded in the general ledger.

Section III – Federal Award Findings and Questioned Costs

**Finding 2018-002: Child Nutrition Cluster, CFDA No. 10.553 and 10.555
United States Department of Agriculture**

Passed through Colorado Department of Education and Colorado Department of Human Services

Compliance Requirements: Eligibility, Reporting, Special Tests and Provisions

Grant No.: 4553 and 4555

Type of finding: Internal Control over Compliance (material weakness) and Compliance (material noncompliance)

Recommendation: The District should develop a system of internal control over compliance that includes segregation of duties in the eligibility determination process to include a supervisory level review of a sample of approved and denied applications made in accordance with eligibility program requirements. Monthly funding requests submitted to the Colorado Department of Education should be reviewed for accuracy and approved for submission by senior-level finance department staff. Additionally, the verification process and data requirements should be completed accurately and submitted timely to the Colorado Department of Education to comply with verification requirements.

Grantee Response:

Superintendent to review sample approved/declined applications for accuracy of eligibility of free and reduced lunch applications. Finance Director to review accuracy and approve submission to CDE of all monthly funding requests.

If the U.S. Department of Agriculture have questions regarding this plan, please call the responsible party listed below.

Sincerely yours,



Curt Wilson
Superintendent
North Conejos School District RE-1J

NORTH CONEJOS SCHOOL DISTRICT RE-1J

CDE COMPLIANCE SECTION



Colorado Department of Education
Auditors Integrity Report
District: 0550 - NORTH CONEJOS RE-1J
Fiscal Year 2017-18
Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type &Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	4,434,518	8,697,426	7,839,133	5,292,811
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub- Total	4,434,518	8,697,426	7,839,133	5,292,811
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main. Fund	0	0	0	0
21 Food Service Spec Revenue Fund	1,935	437,547	463,776	-24,294
22 Govt Designated-Purpose Grants Fund	4,063	428,316	425,117	7,262
23 Pupil Activity Special Revenue Fund	202,493	329,429	306,708	225,214
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
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	716,333	390,678	328,668	778,342
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	5,359,342	10,283,395	9,363,403	6,279,335
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	31,564	10,550	13,000	29,114
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	31,564	10,550	13,000	29,114

FINAL