



SAN MIGUEL COUNTY SCHOOL DISTRICT R-2J
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

October 1, 2018

The Board of Education
San Miguel County School District R-2J
Norwood, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Miguel County School District R-2J (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Miguel County School District R-2J, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension schedules and the OPEB schedules 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Miguel County School District R2-J's basic financial statements. The statement and schedule for the nonmajor governmental fund, the bond redemption fund, food service fund, and student activities fund budgetary comparison schedules (the budgetary comparison schedules) and the Auditors Integrity Report of the Colorado Department of Education (the Report) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Management's Discussion and Analysis

San Miguel County (Norwood) School District R2-Jt.

June 30, 2018

As management of the Norwood School District R2-Jt. (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$7,030,673 (net position). Of this amount, \$1,586,637 is invested in capital assets (net of related debt), \$117,576 is restricted for emergencies, and \$270,097 is restricted for debt service, leaving an unrestricted negative net position balance of (\$9,004,983).

At the end of the current fiscal year, fund balance for the general fund was \$1,745,146. This is attributable to a conservative approach in budgeting for the school district so the fund balance is covering at least three months of operating expenditures.

During the fiscal year, the fund balance in the District's general fund increased by \$202,662.

The District's long-term obligations decreased by \$250,000 as a result of current year payments on the debt.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the District's assets. Deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements only have governmental activities that are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include instructional services, pupil services, instructional staff services, general administration services, school administration services, maintenance and capital asset services, and transportation services. The government-wide financial statements include only the District itself, as the District has no component units. The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Bond Redemption Debt Service Fund, and nonmajor governmental funds. The General Fund and Bond Redemption Fund are considered to be major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-43 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$7,030,673 at the close of the most recent fiscal year. This negative net position is the result of implementing GASB 68 related to pension liabilities.

The District's net position is in its net investment in capital assets (e.g., land and improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding, is \$1,586,637. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Property taxes are levied specifically to fund debt service on general obligation bonds.

Norwood School District R2-Jt.'s Net Position

	Governmental Activities		Totals	
	2017	2018	2017	2018
Current and Other Assets	2,477,498	2,584,942	2,477,498	2,584,942
Capital Assets	<u>2,711,716</u>	<u>2,727,368</u>	<u>2,711,716</u>	<u>2,727,368</u>
Total Assets	5,189,214	5,312,310	5,189,214	5,312,310
Deferred Outflows	4,866,131	3,872,566	4,866,131	3,872,566
Long-term Liabilities				
Outstanding	738,396	721,018	738,396	721,018
Other Liabilities	1,176,703	907,298	1,176,703	907,298
Net Pension Liability	12,606,618	13,374,234	12,606,618	13,374,234
Net OPEB Liability	<u>-</u>	<u>305,411</u>	<u>-</u>	<u>305,411</u>
Total Liabilities	14,521,717	15,307,961	14,521,717	15,307,961
Deferred Inflows	467,894	907,588	467,894	907,588
Net Position:				
Net Investment in Capital Assets	1,318,556	1,586,637	1,318,556	1,586,637
Restricted	331,514	387,673	331,514	387,673
Unrestricted	<u>-6,584,336</u>	<u>-9,004,983</u>	<u>-6,584,336</u>	<u>-9,004,983</u>
Total Net Position	<u><u>-4,934,266</u></u>	<u><u>-7,030,673</u></u>	<u><u>-4,934,266</u></u>	<u><u>-7,030,673</u></u>

The District was required to implement GASB 75, which addresses OPEB liabilities and expenses for the current year. The result of the implementation of this standard and the continuing impact of implementing GASB 68 is large noncurrent liabilities and a negative net position.

The largest portion of the District's assets (fifty-one percent) reflects its investment in capital assets, less accumulated depreciation. Forty-four percent of the District's assets are cash and investments. Eight-one percent of the District's current liabilities represent accrued salaries and fringe benefits. This liability occurs when teachers and certain other District employees work nine months of the year, but are paid over a full twelve months. Therefore, for each month these employees work, they earn more than they are paid. Colorado statutes do not require the liability to be funded or budgeted for until the year in which it is paid.

The liability will be paid in the months of July and August 2018 with state funds received in fiscal year 2019. There was a decrease in long-term liabilities outstanding of \$250,000 due to payment of debt obligations.

Governmental activities. Governmental activities decreased the District's net position by \$1,794,008.

Norwood School District R2-Jt's Changes in Net Position

	Governmental Activities		Totals	
	2017	2018	2017	2018
Revenues:				
Charges for services	189,870	97,143	189,870	97,143
Operating grants	424,787	430,893	424,787	430,893
Capital grants	22,377	27,190	22,377	27,190
Property taxes levied for general purposes	706,217	630,247	706,217	630,247
Property taxes levied for debt services	302,632	274,816	302,632	274,816
State equalization	2,655,553	2,735,474	2,655,553	2,735,474
Specific ownership taxes	46,835	55,256	46,835	55,256
Investment earnings	392	5,435	392	5,435
Mineral leases	1,052	7,919	1,052	7,919
Miscellaneous revenue				
Total revenues	<u>4,349,715</u>	<u>4,264,373</u>	<u>4,349,715</u>	<u>4,264,373</u>
Expenses:				
Instructional services	3,197,921	3,330,094	3,197,921	3,330,094
Support services:				
Pupils	184,670	239,695	184,670	239,695
Instructional Staff	214,996	241,961	214,996	241,961
General administration	452,987	484,375	452,987	484,375
School administration	409,727	451,449	409,727	451,449
Operations/maintenance	661,078	540,474	661,078	540,474
Pupil transportation	244,271	254,196	244,271	254,196
Interest on long-term debt	29,903	24,904	29,903	24,904
Depreciation-unallocated	22,415	22,415	22,415	22,415
Food services	251,472	240,632	251,472	240,632
Central services	190,089	228,186	190,089	228,186
Total expenses	<u>5,859,529</u>	<u>6,058,381</u>	<u>5,859,529</u>	<u>6,058,381</u>
Change in net position	<u>-1,509,814</u>	<u>-1,794,008</u>	<u>-1,509,814</u>	<u>-1,794,008</u>
Net position - beginning	-3,424,452	-4,934,266	-3,424,452	-4,934,266
Changes in accounting principle	-	-302,399	-	-302,399
Net position, beginning, restated	<u>-3,424,452</u>	<u>-5,236,665</u>	<u>-3,424,452</u>	<u>-5,236,665</u>
Net position – ending	<u>-4,934,266</u>	<u>-7,030,673</u>	<u>-4,934,266</u>	<u>-7,030,673</u>

Key elements of the change in net position are as follows:

State equalization aid increased by \$79,921 (two percent) during the fiscal year. Property taxes levied for general purposes and for debt service decreased. Some of the increase is the product of the Colorado Public School Finance Act, which provides for the majority of the funding of local school districts based on a funded pupil count formula and a standardized maximum statewide property tax mill levy. GASB 68 and 75 caused additional increases in many expense categories.

General fund expenditures actually spent were \$1,520,488 under budget. While all staff received a longevity step increase in their salary, the District took steps to reduce expenditures in other areas. This was primarily in reaction to potential reductions in state funding. Salary and benefit expenditures account for 75 percent of the total expenditures in the General Fund.

The implementation of GASB 68 and 75 had a major impact on the net position and expenses of the District.

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,005,072. *Unassigned fund balance* is in a net position of \$1,613,493. Restricted fund balance of \$117,576 must be set aside for emergencies (Tabor).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance was \$1,745,146.

The fund balance of the District's General Fund increased by \$202,662 during the current fiscal year.

General Fund Budgetary Highlights

There were minor amendments to the General Fund budget, but there were no significant variances from budget to actual noteworthy.

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2018 amount to \$2,727,368 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and vehicles and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was due to depreciation.

Long-term debt. At the end of the current fiscal year, the District had total outstanding debt of \$1,130,000. This amount represents general obligation bonds that are backed by the full faith and credit of the District. The general obligation bonds maintain a rating of "AAA" from Standard & Poor's. State statutes limit the amount of general obligation debt a governmental entity may issue to 20 percent of its total assessed valuation. The current debt limitation for the District is \$8,724,315 which is significantly in excess of the District's outstanding general obligation debt.

Economic Factors and Next Year's Budgets

The District's enrollment decreased again, continuing the declining student count that decreases money from the State. This trend could continue with the way the current economy is. Trends in enrollment directly impact the school district's budget for funding. Rising inflation costs and State budget cuts will directly affect the State of Colorado's funding formula for school districts in the future.

Ever-rising costs of health insurance for our staff benefit program means the District has to be very resourceful in purchasing goods and services. Salary increases to our staff are better keeping up with inflation since prior year passage of additional tax revenues.

In November 2000, voters in Colorado approved Amendment 23 to the Colorado constitution providing that K-12 funding would increase at pupil growth plus inflation plus one percent for 10 years and thereafter, growth plus inflation. The amendment created a State Education Fund, which was intended to accumulate revenues to support this level of funding. This provision was intended to stabilize and remove funding from the political process.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Norwood School District R2-Jt., Business Manager, and P.O. Box 448, Norwood, Colorado 81423.

San Miguel County School District R-2J

STATEMENT OF NET POSITION

June 30, 2018

ASSETS	Governmental Activities	Total
Cash and investments	\$ 2,100,121	\$ 2,100,121
Restricted cash and investments	255,050	255,050
Receivables		
Property tax	214,816	214,816
Intergovernmental	11,049	11,049
Inventories	3,906	3,906
Capital assets (net of accumulated depreciation)	2,727,368	2,727,368
Total assets	<u>5,312,310</u>	<u>5,312,310</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	3,844,749	3,844,749
OPEB related deferred outflows	11,250	11,250
Deferred loss on debt refunding	16,567	16,567
Total deferred outflows of resources	<u>3,872,566</u>	<u>3,872,566</u>
LIABILITIES		
Accounts payable	22,365	22,365
Accrued salaries and benefits	323,635	323,635
Accrued interest payable	2,037	2,037
Unearned revenue	51,854	51,854
Noncurrent liabilities:		
Due within one year:		
General obligation bonds	250,000	250,000
Early retirement payable	4,668	4,668
Compensated absences	66,459	66,459
Due in more than one year:		
General obligation bonds	907,298	907,298
Net pension liability	13,374,234	13,374,234
Net OPEB liability	305,411	305,411
Total liabilities	<u>15,307,961</u>	<u>15,307,961</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	896,336	896,336
OPEB related deferred inflows	11,252	11,252
Total deferred inflows of resources	<u>907,588</u>	<u>907,588</u>
NET POSITION		
Net investment in capital assets	1,586,637	1,586,637
Restricted for emergencies	117,576	117,576
Restricted for debt service	270,097	270,097
Unrestricted	(9,004,983)	(9,004,983)
Total net position	<u>\$ (7,030,673)</u>	<u>\$ (7,030,673)</u>

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instructional services	\$ 3,330,094	\$ 55,429	\$ 351,309	\$ -	\$ (2,923,356)	\$ (2,923,356)
Support services:						
Pupils	239,695	-	-	-	(239,695)	(239,695)
Instructional staff	241,961	-	-	-	(241,961)	(241,961)
General administration	484,375	-	-	-	(484,375)	(484,375)
School administration	451,449	-	-	-	(451,449)	(451,449)
Operations and maintenance	540,474	-	1,210	27,190	(512,074)	(512,074)
Pupil transportation	254,196	-	19,341	-	(234,855)	(234,855)
Central services	228,186	-	-	-	(228,186)	(228,186)
Food service	240,632	41,714	59,033	-	(139,885)	(139,885)
Interest on long-term debt	24,904	-	-	-	(24,904)	(24,904)
Depreciation - unallocated	22,415	-	-	-	(22,415)	(22,415)
Total governmental activities	\$ 6,058,381	\$ 97,143	\$ 430,893	\$ 27,190	(5,503,155)	(5,503,155)
	General revenues:					
					630,247	630,247
					274,816	274,816
					2,735,474	2,735,474
					55,256	55,256
					5,435	5,435
					7,919	7,919
					3,709,147	3,709,147
					(1,794,008)	(1,794,008)
					(4,934,266)	(4,934,266)
					(302,399)	(302,399)
					(5,236,665)	(5,236,665)
					\$ (7,030,673)	\$ (7,030,673)

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

ASSETS	June 30, 2018			
	General	Bond Redemption	Nonmajor Governmental	Total Governmental Funds
Cash and investments	\$ 2,100,121	\$ 255,050	\$ -	\$ 2,355,171
Property tax receivable	143,195	71,621	-	214,816
Due from other funds	1,905	-	-	1,905
Due from other governments	11,049	-	-	11,049
Inventory	-	-	3,906	3,906
Total assets	\$ 2,256,270	\$ 326,671	\$ 3,906	\$ 2,586,847
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 21,943	\$ -	\$ 422	\$ 22,365
Accrued salaries and benefits	311,885	-	11,750	323,635
Due to other funds	-	-	1,905	1,905
Unearned revenue	51,854	-	-	51,854
Total liabilities	385,682	-	14,077	399,759
Deferred inflows of resources				
Property tax	125,442	56,574	-	182,016
Fund balances				
Nonspendable	-	-	3,906	3,906
Restricted - TABOR reserve	117,576	-	-	117,576
Restricted for debt service	-	270,097	-	270,097
Unassigned	1,627,570	-	(14,077)	1,613,493
Total fund balances	1,745,146	270,097	(10,171)	2,005,072
Total liabilities, deferred inflows and fund balances	\$ 2,256,270	\$ 326,671	\$ 3,906	\$ 2,586,847

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

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

June 30, 2018

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

Total fund balance - governmental funds		\$	2,005,072
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is and the accumulated depreciation is	6,378,844 <u>(3,651,476)</u>		2,727,368
Deferred loss on the refunding is not a current financial resource and, therefore, is not reported in the funds.			16,567
Deferred inflows related to property taxes in the funds is not "available"; however, these amounts are included as revenue in the statement of activities.			182,016
Net pension and OPEB obligations and the related deferred items are not financial resources and, therefore, are not recorded in the funds. The assessed value of the net pension obligation is (\$13,374,234), the net OPEB obligation is (\$305,411), deferred outflows total \$3,855,999, and deferred inflows total (\$907,588).			(10,731,234)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Long-term bonds	(1,130,000)		
Bond premium	(27,298)		
Early retirement payable	(4,668)		
Compensated absences	<u>(66,459)</u>		(1,228,425)
Interest accrued on long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.			<u>(2,037)</u>
Total net position - governmental activities		\$	<u><u>(7,030,673)</u></u>

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

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

Year ended June 30, 2018

	General	Bond Redemption	Nonmajor Governmental Fund	Total Governmental Funds
Revenues				
Local sources	\$ 825,054	\$ 322,546	\$ 41,714	\$ 1,189,314
State sources	3,028,355	-	1,694	3,030,049
Federal sources	111,524	-	57,336	168,860
Interest and other revenues	107	5,328	-	5,435
Total revenues	<u>3,965,040</u>	<u>327,874</u>	<u>100,744</u>	<u>4,393,658</u>
Expenditures				
Current				
Instruction	1,936,164	-	-	1,936,164
Supporting services	1,511,576	-	-	1,511,576
Food service	-	-	170,966	170,966
Capital outlay	264,638	-	-	264,638
Debt service, interest and fiscal charges	-	27,750	-	27,750
Debt service principal	-	250,000	-	250,000
Total expenditures	<u>3,712,378</u>	<u>277,750</u>	<u>170,966</u>	<u>4,161,094</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	252,662	50,124	(70,222)	232,564
Other financing sources (uses)				
Transfers in (out)	(50,000)	-	50,000	-
	<u>(50,000)</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	202,662	50,124	(20,222)	232,564
Fund balances beginning of year, restated	<u>1,542,484</u>	<u>219,973</u>	<u>10,051</u>	<u>1,772,508</u>
Fund balance end of year	<u>\$ 1,745,146</u>	<u>\$ 270,097</u>	<u>\$ (10,171)</u>	<u>\$ 2,005,072</u>

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

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

Year ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$ 232,564
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (\$163,450 - 147,798)	15,652
In the governmental funds, expenditures for the defined benefit pension and OPEB plans are measured by the amount of financial resources used, whereas in the statement of activities they are measured as the liability is accrued according to actuarial estimates. This is the amount the net pension and OPEB liabilities, with accompanying deferred outflows/inflows, changed in the current year.	(2,200,136)
Some levied property taxes will not be collected until after the District's year end, which are not considered "available" revenues in the governmental funds. However, they are recognizable in the statement of activities. This amount is the decrease in unearned property taxes for the year.	(129,284)
Governmental funds report repayment of debt principal as an expenditure. Also, governmental funds report the effect of debt premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt is as follows:	
Debt principal payments	250,000
Change in early retirement and compensated absences payable	34,350
Change in accrued interest payable	417
Amortization of deferred loss on debt refunding	(3,751)
Accretion on bond premium	6,180
	<u>6,180</u>
Change in net position of governmental activities	<u>\$ (1,794,008)</u>

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J

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

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Current property taxes	\$ 615,309	\$ 606,260	\$ 723,344	\$ 117,084
Specific ownership taxes	13,357	9,943	44,960	35,017
State equalization	2,723,872	2,734,073	2,735,474	1,401
Transportation	20,000	19,295	19,341	46
Federal sources	115,364	127,601	111,524	(16,077)
State sources, other	283,397	307,780	273,540	(34,240)
Interest income	70	70	107	37
Other	41,000	41,000	56,750	15,750
Total revenues	3,812,369	3,846,022	3,965,040	119,018
Expenditures				
Current				
Instruction	2,118,403	2,138,435	1,936,164	202,271
Supporting services				
Pupils	146,400	151,900	147,040	4,860
Instructional staff	150,383	158,930	142,205	16,725
General administration	291,683	292,083	258,053	34,030
School administration	271,002	271,002	261,579	9,423
Operations and maintenance	455,200	466,240	377,545	88,695
Pupil transportation	182,600	182,600	152,229	30,371
Central services	170,437	182,437	172,925	9,512
Capital outlay	267,950	295,140	264,638	30,502
Contingency	1,088,311	1,094,099	-	1,094,099
Total expenditures	5,142,369	5,232,866	3,712,378	1,520,488
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,330,000)	(1,386,844)	252,662	1,639,506
Other financing sources (uses)				
Transfers in (out)	(50,000)	(50,000)	(50,000)	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,380,000)	(1,436,844)	202,662	1,639,506
Fund balance beginning of year	1,380,000	1,436,844	1,542,484	105,640
Fund balance end of year	\$ -	\$ -	\$ 1,745,146	\$ 1,745,146

The notes to the financial statements are an integral part of this statement.

San Miguel County School District R2-J

STATEMENT OF FIDUCIARY NET POSITION
STUDENT ACTIVITIES FUND

June 30, 2018

ASSETS

Cash and investments	\$ 46,116
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LIABILITIES

Due to others	\$ 46,116
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The notes to the financial statements are an integral part of this statement.

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of San Miguel County School District R-2J (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

The following is a summary of the District’s significant accounting policies:

1. The Reporting Entity

The District is governed by a five member Board of Education and is organized and operates in accordance with Colorado statutes. Board of Education members are elected by the citizens of San Miguel County, not appointed by any other governing body. The Board selects the superintendent of schools and senior level administrators. The Board is solely responsible for the District’s budget adoption process. The District independently issues debt for short and long-term financing. The District meets the criteria of a primary government: its Board is the publicly elected governing body; it is a legally separate entity; and it is fiscally independent. The District is not included in any other governmental reporting entity, and has no component units.

2. Government-wide and Fund Financial Statements

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

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

3. 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.

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *Bond Redemption Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund types:

The *Student Activities Agency Fund* is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations or budgetary accounting. However, the Colorado State Auditor's Office has determined that an annual budget and appropriation be adopted by the Board of Education.

The *Food Service Fund* accounts for the activities of the nutrition services operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund activity is not eliminated in the fund financial statements.

Amounts reported as *program revenues* include 1) charges to students and customers for tuition, fees, rental or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Assets, Liabilities and Net Position or Equity

Cash and Investments

State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of bonds of U.S. local government entities, bankers acceptances of certain banks, commercial paper, written repurchase agreements collateralized by certain authorized securities, certain money market funds and guaranteed investment contracts.

Investments for the government are reported at fair value.

Receivables and Payables

Interfund receivables and payables result from overdraws of the cash and investment pool. These outstanding balances between funds are reported as “due to/from other funds.”

Inventories

Inventories of expendable supplies and materials are valued at cost using the first-in, first-out basis. Inventory items are charged to expenditures when they are consumed. United States Department of Agriculture commodity inventories are valued using Federal guidelines.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	5 - 40
Land improvements	10 - 20
Vehicles	5 - 10
Equipment	3 - 20

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Future Compensated Absences

Vacation vests and accumulates; however, personal leave does not vest or accumulate. Sick leave does vest and accumulate up to 30 days and can be paid through the District buy-back program. This program pays at a varying rates per day. The employee can choose to be paid annually or can accumulate up to 30 days and then be paid any excess days annually. Any days remaining at termination or retirement are paid at the varying per day rates.

Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations and retirements.

Early Retirement Benefits

The District had established a voluntary early retirement program. Employees who elected to participate in the program and who met the established eligibility requirements were awarded an early retirement bonus in accordance with the terms and conditions of the policy. The bonus consisted of a one-time payment of \$10,000, plus payment of 18 months of COBRA insurance or a monetary equivalent. The policy has been terminated.

Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

5. Stewardship, compliance and accountability

Budgetary Information

Annual budgets are adopted for all funds on a basis consistent with GAAP. In June, the Board of Education adopts the budget for the following fiscal year. In accordance with Colorado statutes, the Board makes final changes, if any, when it “readopts” the budget by January 2017. The Board may amend or adopt supplemental budgets during the budget year. There were no supplemental appropriations during the current year.

Budgeted level of expenditures

Expenditures may not legally exceed appropriations at the fund level. Administrative control is maintained through the use of detailed line-item budgets. Budgets must be amended at the fund level by the Board of Education. At year-end, all appropriations lapse in accordance with Colorado statutes.

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Pensions

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

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

7. Adoption of GASB 75

For the year ended June 30, 2018, the District adopted the provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

8. Defined Benefit Other Post Employment Benefit Plan (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 the 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.

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE B – CASH

Cash consists of the following:

Demand accounts	\$ 2,146,236
Money market	255,050
Total	2,401,286
Less restricted cash	255,050
Unrestricted cash	\$ 2,146,236

Restricted cash and investments consist of \$255,050 for debt service.

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

NOTE C – PROPERTY TAXES

Revenue Recognized in 2018

Local property taxes levied for 2017 and collected by June 30, 2018 are recognized as revenue in these financial statements as shown below:

	<u>Assessed Valuation</u>	<u>Mill Levy</u>	<u>Amount of Taxes</u>			<u>Percent Collected of</u>	
			<u>Levied</u>	<u>Budgeted</u>	<u>Collected</u>	<u>Levied</u>	<u>Budgeted</u>
General fund	\$ 43,621,576	14.209	\$619,819	\$606,560	\$711,672	114.8%	117.3%
Debt service fund	\$ 43,621,576	6.300	274,816	277,792	312,249	113.6%	112.4%

The amounts collected are higher than normal as one large tax payer had yet to remit prior year taxes. Property taxes are assessed on a calendar year basis. The mill levies noted here are for the 2017 calendar year. The monies collected are for the period July 1, 2017 through June 30, 2018.

Property Tax Calendar

The District's property taxes certified by the Board of Education by December 14 and levied on assessed valuation by the County Commissioners by December 15, are due and payable in the subsequent calendar year. Assessed values are established by the county assessor. Property taxes attach as an enforceable lien on property as of January 1 of the year in which payable. The taxes are payable under two methods: 1) in full on or before April 30, 2) one-half on or before February 28 and the remaining one-half on or before June 15. The County Treasurer collects all property taxes. District taxes are received by the 10th of the month following the month of collection, except for the month of June, when two payments are received.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE D – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 46,012	\$ —	\$ —	\$ 46,012
Total capital assets, not being depreciated	46,012	—	—	46,012
Capital assets, being depreciated:				
Buildings and building improvements	4,995,681	—	—	4,995,681
Land improvements	158,884	—	—	158,884
Vehicles and equipment	<u>1,025,503</u>	<u>163,450</u>	<u>10,686</u>	<u>1,178,267</u>
Total capital assets being depreciated	6,180,068	163,450	10,686	6,332,832
Less accumulated depreciation for:				
Buildings and building improvements	(2,500,795)	(113,285)	—	(2,614,080)
Land improvements	(101,743)	(8,169)	—	(109,912)
Vehicles and equipment	<u>(911,826)</u>	<u>(26,344)</u>	<u>10,686</u>	<u>(927,484)</u>
Total accumulated depreciation	<u>(3,514,364)</u>	<u>(147,798)</u>	<u>10,686</u>	<u>(3,651,476)</u>
Total capital assets being depreciated, net	<u>2,665,704</u>	<u>15,652</u>	<u>—</u>	<u>2,681,356</u>
Governmental activities capital assets, net	<u>\$ 2,711,716</u>	<u>\$ 15,652</u>	<u>\$ —</u>	<u>\$ 2,727,368</u>

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

Governmental activities:	
Instructional services	\$ 85,211
Instructional staff services	10,859
General administration services	5,110
Operations and maintenance services	3,862
Pupil transportation services	20,341
Depreciation – unallocated	<u>22,415</u>
Total depreciation expense governmental activities	<u>\$ 147,798</u>

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE E – LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>6/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/18</u>	<u>Due within</u> <u>one year</u>
General obligation bonds	\$1,380,000	\$ –	\$ 250,000	\$1,130,000	\$ 250,000
Bond premium	33,478	–	6,180	27,298	6,181
Early retirement benefit	52,773	–	48,105	4,668	4,668
Future compensated absences	<u>52,704</u>	<u>13,755</u>	<u>–</u>	<u>66,459</u>	<u>66,459</u>
	<u>\$1,518,955</u>	<u>\$ 13,755</u>	<u>\$ 304,285</u>	<u>\$1,228,425</u>	<u>\$ 327,308</u>

General Obligation Refunding Bonds

On September 4, 2014, the District issued \$1,885,000 in general obligation serial bonds with interest rates varying between 2.00% and 2.50%. The District issued bonds to advance refund \$1,845,000 of the outstanding series 2004 general obligation bonds. There are no defeased bonds outstanding at June 30, 2018.

The issuance of the debt resulted in a premium of \$50,990. This is being amortized over the life of the bonds. The balance of the premium at June 30, 2018 is \$27,298.

Debt service requirements for general obligation bonds are as follows:

<u>Maturity</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 250,000	\$ 21,950	\$ 271,950
2020	250,000	16,950	266,950
2021	260,000	11,850	271,850
2022	270,000	5,875	275,875
2023	<u>100,000</u>	<u>1,250</u>	<u>101,250</u>
Total	<u>\$ 1,130,000</u>	<u>\$ 57,875</u>	<u>\$ 1,187,875</u>

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE F – FUND BALANCES

GASB Statement No. 54 clearly defines fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the School Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the School Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the School Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum intended to be used for the purpose of that particular fund.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is District policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned.

NOTE G – 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.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

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

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

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

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

Contributions provisions as of June 30, 2018: Eligible employees and 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, 2017	For the Year Ended December 31, 2018
Employer contribution rate ¹	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.50%
Total employer contribution rate to the SCHDTF¹	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the District were \$364,185 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 \$13,374,234 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF 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.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

The District proportion of the net pension liability was based on the District contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the District proportion was .04136 percent, which was a decrease of .00098 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$2,561,307. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$245,896	\$–
Changes of assumptions or other inputs	3,414,939	21,670
Net difference between projected and actual earnings on pension plan investments	–	525,219
Changes in proportion and differences between contributions recognized and proportionate share of contributions	–	349,447
Contributions subsequent to the measurement date	183,914	N/A
Total	\$3,844,749	\$896,336

\$183,914 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, 2018:	
2019	\$ 1,890,278
2020	1,083,117
2021	(11,307)
2022	(197,589)
2023	–
Thereafter	–

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

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

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

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

Asset Class	Target Allocation	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%.

San Miguel County School District R-2J
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$16,893,933	\$13,374,234	\$10,506,083

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

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees’ Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.*

The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

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.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

At June 30, 2018, the District reported a liability of \$13,374,234 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%	\$6,042,363

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 \$6,243,176 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE H – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated.

All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

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

PERA Benefit Structure

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

DPS Benefit Structure

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$19,676 for the year ended June 30, 2018.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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 \$305,411 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The District proportion of the net OPEB liability was based on District contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the District proportion was .0235 percent, which was a decrease of .00057 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$22,780. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$1,444	\$–
Net difference between projected and actual earnings on OPEB plan investments	–	5,109
Changes in proportion and differences between contributions recognized and proportionate share of contributions	–	6,143
Contributions subsequent to the measurement date	9,806	N/A
Total	\$11,250	\$11,252

\$9,806 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:

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

Year ended June 30, 2018:	
2019	\$ (2,201)
2020	(2,201)
2021	(2,201)
2022	(2,200)
2023	(923)
Thereafter	(82)

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

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

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

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services.

Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

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

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

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

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

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

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

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

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

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

- 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%	

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$297,008	\$305,411	\$315,532

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.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$343,378	\$305,411	\$273,005

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 I – 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. The District has established the Self-Insurance bank account to finance its uninsured risks of loss for employee health insurance. The District purchases commercial insurance for claims in excess of coverage for health insurance. The District purchases commercial insurance for worker’s compensation, general liability and property insurance. Settled claims have not exceeded this coverage in any of the past three fiscal years. No material claims payable exist as of June 30, 2018.

NOTE J – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment. However, the District has made certain interpretations of the Amendment’s language in order to determine its compliance.

San Miguel County School District R-2J

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE K – JOINT VENTURE

The District is a member of the Uncompahgre Board of Cooperative Services (BOCS), a joint venture of several local school districts. The BOCS is governed by a board formed of one board member from each member district. The participants oversee budgeting and finance. The following was extracted from the BOCS fund financial statements of June 30, 2018, and for the year then ended.

Total assets	\$ 352,778
Total liabilities	146,741
Total fund equity	206,037
Total revenues	1,071,690
Total expenditures	1,080,920
Excess of revenues over (under) expenditures	(9,230)

The District had no debt with the joint venture at June 30, 2018.

NOTE L – CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2017, the District retroactively changed its method of accounting for OPEB contributions and related obligations to conform to GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Under the new accounting method, the District accrues a net OPEB liability related to its participation in a multiple employer cost sharing OPEB plan. The effect of the change decreased beginning net position for 2018 by \$302,399, from (\$4,934,266) to (\$5,236,665).

NOTE M – INTERFUND TRANSFERS

The General Fund transferred \$50,000 to the Food Service Fund to subsidize operations.

NOTE N – FUND BALANCE DEFICIT

The Food Service Fund has a deficit fund balance of \$10,171 at June 30, 2018.

SUPPLEMENTARY INFORMATION

San Miguel County School District R-2J

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND

June 30, 2018

		<u>Special Revenue</u>	
		Food Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Inventories		\$ 3,906	\$ 3,906
	Total assets	<u>\$ 3,906</u>	<u>\$ 3,906</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable		\$ 422	\$ 422
Due to other funds		1,905	1,905
Accrued salaries and benefits		<u>11,750</u>	<u>11,750</u>
	Total liabilities	14,077	14,077
Fund balances			
Nonspendable		3,906	3,906
Unassigned		<u>(14,077)</u>	<u>(14,077)</u>
	Total fund balances	<u>(10,171)</u>	<u>(10,171)</u>
	Total liabilities and fund balances	<u>\$ 3,906</u>	<u>\$ 3,906</u>

San Miguel County School District R-2J

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUND

Year ended June 30, 2018

	<u>Special Revenue</u>	
	<u>Food Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues		
Local sources	\$ 41,714	\$ 41,714
State sources	1,694	1,694
Federal sources	57,336	57,336
Total revenues	<u>100,744</u>	<u>100,744</u>
Expenditures		
Current		
Food service	170,966	170,966
Total expenditures	<u>170,966</u>	<u>170,966</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(70,222)	(70,222)
Other financing sources (uses)		
Transfers in (out)	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(20,222)	(20,222)
Fund balances beginning of year	<u>10,051</u>	<u>10,051</u>
Fund balance end of year	<u>\$ (10,171)</u>	<u>\$ (10,171)</u>

San Miguel County School District R-2J

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

Year ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property and specific ownership taxes	\$ 277,792	\$ 277,792	\$ 322,546	\$ 44,754
Interest income	8	8	5,328	5,320
Total revenues	<u>277,800</u>	<u>277,800</u>	<u>327,874</u>	<u>50,074</u>
Expenditures				
Debt service principal	250,000	250,000	250,000	-
Interest and fiscal charges	27,800	27,800	27,750	50
Total expenditures	<u>277,800</u>	<u>277,800</u>	<u>277,750</u>	<u>50</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	50,124	50,124
Fund balance beginning of year	<u>-</u>	<u>-</u>	<u>219,973</u>	<u>219,973</u>
Fund balance end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,097</u>	<u>\$ 270,097</u>

San Miguel County School District R-2J

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

Year ended June 30, 2018

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 38,400	\$ 38,400	\$ 41,714	\$ 3,314
State sources	2,750	2,750	1,694	(1,056)
Federal sources	78,000	78,000	57,336	(20,664)
Total revenues	119,150	119,150	100,744	(18,406)
Expenditures				
Food service	186,400	186,400	170,966	15,434
Total expenses	186,400	186,400	170,966	15,434
EXCESS OF REVENUES OVER (UNDER) EXPENSES				
	(67,250)	(67,250)	(70,222)	(2,972)
Other financing sources (uses)				
Transfers in	50,000	50,000	50,000	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENSES AND OTHER USES				
	(17,250)	(17,250)	(20,222)	(2,972)
Fund balance beginning of year	17,250	17,250	10,051	(7,199)
Fund balance end of year	\$ -	\$ -	\$ (10,171)	\$ (10,171)

San Miguel County School District R-2J

SCHEDULE OF REVENUES AND EXPENDITURES
STUDENT ACTIVITIES FUND - BUDGET AND ACTUAL

Year ended June 30, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Local sources	\$ 200,000	\$ 58,497	\$ (141,503)
Total revenue	<u>200,000</u>	<u>58,497</u>	<u>(141,503)</u>
Expenditures			
Student activities	<u>200,000</u>	<u>75,187</u>	<u>124,813</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (16,690)</u>	<u>\$ (16,690)</u>

San Miguel County School District R-2J

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2018

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
<u>Measurement date:</u>					
December 31, 2014	0.046972%	\$ 6,366,224	\$ 1,967,772	324%	63%
December 31, 2015	0.045386%	6,941,456	1,977,906	351%	59%
December 31, 2016	0.042341%	12,606,618	1,899,814	664%	43%
December 31, 2017	0.041360%	13,374,234	1,906,570	701%	44%

San Miguel County School District R-2J

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2018

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2015	\$ 338,564	\$ 338,564	\$ -	\$ 2,005,189	16.88%
June 30, 2016	340,402	340,402	-	1,977,906	17.21%
June 30, 2017	347,543	347,543	-	1,890,886	18.38%
June 30, 2018	364,185	364,185	-	1,929,060	18.88%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26%. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

San Miguel County School District R-2J

SCHEDULE OF ACTIVITY - NET OPEB LIABILITY

June 30, 2018

	Employer proportion of NOPEBL	Employer proportionate share of NOPEBL	Employer covered payroll	Employer proportionate share of NOPEBL as a percentage of covered payroll	OPEB plan's fiduciary net position as a percentage of total OPEB liability
<u>Measurement date:</u>					
December 31, 2017	0.023500%	\$ 305,411	\$ 1,906,570	16%	17.53%

San Miguel County School District R-2J

SCHEDULE OF ACTIVITY - EMPLOYER OPEB CONTRIBUTIONS

June 30, 2018

	<u>Required employer contribution</u>	<u>Employer contributions recognized by the plan</u>	<u>Difference</u>	<u>Employer covered payroll</u>	<u>Contributions as a percentage of employer covered payroll</u>
June 30, 2018	\$ 19,676	\$ 19,676	\$ -	\$ 1,929,060	1.02%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

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



Colorado Department of Education
Auditors Integrity Report
 District: 2840 - NORWOOD R-2)
 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	1,542,484	3,915,040	3,712,377	1,745,146
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
Sub-Total	1,542,484	3,915,040	3,712,377	1,745,146
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	10,051	150,745	170,967	-10,171
22 Govt Designated-Purpose Grants Fund	0	0	0	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mid Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	219,973	327,875	277,750	270,098
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	0	0	0	0
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	1,772,508	4,393,639	4,161,894	2,005,073
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	62,805	58,497	75,187	46,116
79 GASB 34 Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	62,805	58,497	75,187	46,116

FINAL

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