

CUSTER COUNTY SCHOOL DISTRICT C-1
WESTCLIFFE, COLORADO
FINANCIAL STATEMENTS
June 30, 2016

**CUSTER COUNTY SCHOOL DISTRICT C-1
WESTCLIFFE, COLORADO**

ROSTER OF SCHOOL OFFICIALS

June 30, 2016

BOARD OF EDUCATION

Terre Davis - President
Monty Lee - Vice-President
Bob Jolley - Secretary/Treasurer
Brian Cline - Member
Jacob Shy - Member

ADMINISTRATIVE STAFF

Mark Payler
Superintendent

Amy Perschbacher
Business Manager

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Certified Public Accountants

Swanhorst & Company LLC

Board of Education
Custer County School District C-1
Westcliffe, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Custer County School District C-1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Custer County School District C-1, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Custer County School District C-1 as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Other Matters (Other Information)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer County School District C-1's basic financial statements. The supplementary information and the auditors integrity report listed in the table of contents 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 the 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.

A handwritten signature in cursive script, appearing to read "Ernst & Young LLP", written in dark ink.

February 23, 2017

CUSTER COUNTY SCHOOL DISTRICT C-1
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2016

As management of Custer County School District C-1, we offer readers of the District's basic financial statements this narrative and analysis of the financial activities of Custer County School District C-1 for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2016 was the first year of service for our superintendent, Mr. Mark Payler. He was employed as the Interim Superintendent beginning in July of 2015 and has continued as the permanent Superintendent since October of that same year. Mr. Payler brings 16 years of experience as a Superintendent in Colorado to the position as well as 17 years of teaching in secondary schools and 3 years of business experience working primarily with financial companies in the Financial District of lower Manhattan (NYC). Mark is a consultant to the Colorado Department of Education and serves on the State Review Panel and reviews districts facing Turnaround and Priority Improvement sanctions.

In fiscal year 2016, the general fund carryover balance reflects an increase of \$241,859 from the prior year. This increase was partially due to a higher than projected amount of specific ownership taxes being collected and coming in under budgeted projected expenses in other areas. All expenditures were approved by the board. Digital textbooks were purchased for elementary classes and for new high school science curriculum and AP History classes. A new secure main office entrance to the schools was installed through capital and local donation funding. A 2013 Nissan Armada was purchased for student transportation and was budgeted for aging vehicle replacement. Routine facilities maintenance took place throughout the District, including the resealing of both gym floors and replacement of two damaged heating units in the middle school wing. Though budget restrictions and increasing costs have made it difficult, the District continued to maintain its benefit package for all eligible employees, albeit at a higher deductible partially self-funded health insurance plan with the same provider from the previous fiscal year. The implementation of a medical reimbursement plan to replace the medical gap insurance plan offered by the District in the 2007-2008 school year has now realized an accumulated savings of \$115,002 to the District over the last nine fiscal years.

The District had four fewer students enrolled than in the 2014-2015 school year; however, funded student count was down by 14.7 students. The official funded count varies from actual funded count students due to the five-year averaging allowed by the state. The operations of the District are funded primarily by tax revenue received under the State School Finance Act. Operating tax revenue for the year from property and specific ownership taxes from the county was approximately \$2,614,170, an increase of \$39,683 from local tax revenue from the previous year. State equalization revenue amounted to an additional \$807,175, reflecting an increase of \$34,475 from the previous year's state equalization funding and a \$519,767 decrease in state equalization funding from fiscal year 2010. The negative factor in school funding continues to force budget constraints for the District. For fiscal year 2016, the district received \$450,356 less than the program funding established by the School Finance Act of 1994 and the voter approved stipulations of Amendment 23 due to employment of the negative factor.

Overview of Financial Statements

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

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

The statement of net position presents information on all the District's assets and liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the 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 District's net position changed during the 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 the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

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 keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. 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 the District's near-term financing requirements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The District has two major governmental funds: the General Fund and Bond Redemption Fund.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

The District's net position is a negative (\$2,913,286). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$7,232,747, representing the District's proportionate share of PERA's net pension liability. Of this amount, \$(5,393,540) is unrestricted. \$1,771,022 is the District's net investment in capital assets. \$113,000 is restricted (reserved for emergencies) to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. In addition, \$596,232 is restricted for debt service.

Net Position**Governmental**

	2016	2015
Assets		
Current Assets	\$ 2,157,225	\$ 1,935,649
Capital Assets-Net	<u>4,876,569</u>	<u>5,033,546</u>
Total Assets	\$ 7,033,794	\$ 6,969,195
Deferred Outflows of Resources	\$ 1,171,077	\$ 576,700
Liabilities		
Current Liabilities	\$ 303,429	\$ 313,450
Noncurrent Liabilities	<u>10,591,462</u>	<u>10,029,024</u>
Total Liabilities	\$10,894,891	\$10,342,474
Deferred Inflows of Resources	\$ 223,266	\$ 192,262
Net Position		
Net Investment in Capital Assets	\$ 1,771,022	\$ 1,635,199
Restricted	709,232	717,688
Unrestricted	<u>\$(5,393,540)</u>	<u>(5,341,728)</u>
Total Net Position	\$(2,913,286)	\$(2,988,841)
Change in Net Position		
Revenues		
Property Taxes	\$ 2,644,675	\$ 2,637,380
SO Taxes	354,216	343,782
Equalization	807,175	772,700
Charges for Services	40,001	39,694
Operating Grants and Contributions	283,339	312,158
Other Revenues	<u>386,082</u>	<u>261,860</u>
Total Revenue	\$ 4,515,488	\$ 4,367,574
Expenses		
Instruction	\$ 2,547,780	\$ 2,353,007
Support Services	1,632,643	1,568,637
Interest on Long-Term Debt	94,587	137,260
Food Service	<u>164,923</u>	<u>174,616</u>
Total Expenses	\$ 4,439,933	\$ 4,233,520
Increase (Decrease) in Net Position	\$ 75,555	\$ 134,054
Net Position, June 30, 2012		<u>\$ 2,685,979</u>
Net Position, June 30, 2013		<u>\$ 2,690,526</u>
Net Position, June 30, 2014		<u>\$ 2,923,834</u>
Net Position, June 30, 2015		<u>\$(2,988,841)</u>
Net Position, June 30, 2016		<u>\$(2,913,286)</u>

Financial Analysis of the District's Funds

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 the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$1,738,504, an increase of \$232,623 (reflecting slightly higher than budgeted tax revenues, and lower than anticipated budgeted expenditures in some areas). Maintaining the facilities was all that the 2016 budget constraints allowed, although a new Facilities Maintenance Master Plan was generated to address long term future needs. A Capital purchase was made in the transportation department in 2016, although the district fleet is still made up of several aging buses that the District is endeavoring to maintain in good working order. Additional new laptop computers and used computer equipment in good condition has been purchased to replace equipment that is beyond repair. Any possible safety issues District-wide will continue to be monitored and addressed as the need arises.

The General Fund is the major operating fund of the District. At the end of the current fiscal year, fund balance increased by \$241,859 (from \$916,105 to \$1,157,964).

The Bond Redemption Fund ending fund balance decreased by \$9,649 (from \$589,461 to \$579,812). The Bond Refundings in 2005, 2012, and 2014 resulted in an increased balance in the Fund in those years. The Board of Education and management will again lower the bond mill levy to meet bond redemption obligations with minimal change to the fund balance in the Bond Redemption Fund. The carryover fund balance still reflects an amount which would meet at least one year's obligations for bond redemption, in the event of default by any of the District's significantly large taxpayers.

General Fund Budgetary Highlights

The District budgeted for General Fund expenditures of \$3,964,005 for the year ended June 30, 2016. Expenditures actually made in the General Fund totaled \$3,741,349. Budgeted revenues were projected at \$3,926,487 and actually came in at \$4,037,208. Both revenues and expenditures reflect a slight increase from the previous fiscal year.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets as of June 30, 2016, amounts to \$4,876,569. A current year addition included a student transport vehicle as described previously. More information on the District's capital assets can be found in Note 3 to the financial statements.

Long-term debt. As of June 30, 2016, the District had \$1,360,000 bonds payable from the bond issue of 2000 and the related refundings of 2005 and 2014, which authorized the building of a new high school wing, a remodeled elementary wing, a remodeled middle school wing, new offices, and other facility improvements. Long term debt also includes \$1,850,000 bonds payable from the bond issue of 2004 and the related refunding of 2012, which authorized the building of a new physical education complex that includes a gym, locker rooms, weight room, concession and storage areas, handicap accessible restrooms, and coaches' offices.

Compensated absences of \$66,159 are future liabilities. More information on the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the District is student enrollment. Enrollment for 2015-2016 was 393 students in preschool-12th grades with funded count being 376.4. This figure was a decrease in actual enrollment (down from 397) and a decrease in funded student count from the previous year (391.1). The enrollment projected for the 2016-2017 school year was held stable at 393 students. This factor was considered in preparing the District's budget for 2016-2017.

The increased size of the District's facilities over the last fifteen years has increased utilities and operational expense. This was taken into consideration in the planning of the budget for 2016-2017. The volatility of fuel prices is of major concern to the District, especially in light of state funding for transportation decreasing at the same time that all other expenses are increasing. Because we are a small, rural school district with the majority of our students living outside of Westcliffe, the operation of our bus routes is imperative to providing our students with a quality education. There has been a reduction in staff in the District due to budget restrictions (primarily achieved by not replacing staff leaving the District at this time and by reassignment of current personnel). The District continues to subsidize the food service program from the General Fund; however, the board and management of the District continue to support the program for the benefit of the District's students.

Requests for Information

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

Custer County School District C-1
709 Main Street, P.O. Box 730
Westcliffe, CO 81252

BASIC FINANCIAL STATEMENTS

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Investments	\$ 1,916,153
Accounts Receivable	901
Taxes Receivable	237,646
Grants Receivable	37
Inventories	2,488
Capital Assets, Net of Accumulated Depreciation	<u>4,876,569</u>
TOTAL ASSETS	<u>7,033,794</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refundings, Net of Accumulated Amortization	187,009
Pensions, Net of Accumulated Amortization	<u>984,068</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,171,077</u>
LIABILITIES	
Accounts Payable	5,010
Accrued Salaries and Benefits	298,419
Noncurrent Liabilities	
Due Within One Year	320,601
Due in More Than One Year	3,038,114
Net Pension Liability	<u>7,232,747</u>
TOTAL LIABILITIES	<u>10,894,891</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>223,266</u>
NET POSITION	
Net Investment in Capital Assets	1,771,022
Restricted for Debt Service	596,232
Restricted for Emergencies	113,000
Unrestricted	<u>(5,393,540)</u>
TOTAL NET POSITION	<u>\$ (2,913,286)</u>

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

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 2,547,780	\$ 7,410	\$ 135,843	\$ (2,404,527)
Supporting Services	1,632,643	-	78,519	(1,554,124)
Food Service	164,923	32,591	68,977	(63,355)
Interest and Fiscal Charges	94,587	-	-	(94,587)
TOTAL PRIMARY GOVERNMENT	\$ 4,439,933	\$ 40,001	\$ 283,339	(4,116,593)
GENERAL REVENUES				
				2,644,675
Local Property Taxes				354,216
Specific Ownership Taxes				807,175
State Equalization				
Grants and Contributions not Restricted to Specific Programs				248,616
Investment Income				3,849
Other				133,617
TOTAL GENERAL REVENUES				4,192,148
CHANGE IN NET POSITION				75,555
NET POSITION, Beginning				(2,988,841)
NET POSITION, Ending				\$ (2,913,286)

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

CUSTER COUNTY SCHOOL DISTRICT C-1

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>GENERAL</u>	<u>BOND REDEMPTION</u>	<u>NONMAJOR FOOD SERVICE</u>	<u>TOTAL</u>
ASSETS				
Cash and Investments	\$ 1,342,939	\$ 567,147	\$ 6,067	\$ 1,916,153
Accounts Receivable	615	-	286	901
Taxes Receivable	208,561	29,085	-	237,646
Grants Receivable	-	-	37	37
Inventories	-	-	2,488	2,488
TOTAL ASSETS	<u>\$ 1,552,115</u>	<u>\$ 596,232</u>	<u>\$ 8,878</u>	<u>\$ 2,157,225</u>
LIABILITIES				
Accounts Payable	\$ 4,610	\$ -	\$ 400	\$ 5,010
Accrued Salaries and Benefits	290,669	-	7,750	298,419
TOTAL LIABILITIES	<u>295,279</u>	<u>-</u>	<u>8,150</u>	<u>303,429</u>
DEFERRED INFLOWS OF RESOURCES				
Property Taxes	98,872	16,420	-	115,292
FUND BALANCES				
Nonspendable Inventories	-	-	2,488	2,488
Restricted for Debt Service	-	579,812	-	579,812
Restricted for Emergencies	113,000	-	-	113,000
Unrestricted, Unassigned	1,044,964	-	(1,760)	1,043,204
TOTAL FUND BALANCES	<u>1,157,964</u>	<u>579,812</u>	<u>728</u>	<u>1,738,504</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,552,115</u>	<u>\$ 596,232</u>	<u>\$ 8,878</u>	<u>\$ 2,157,225</u>

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balances of Governmental Funds	\$ 1,738,504
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	4,876,569
Long-term assets are not available to pay current expenditures and, therefore, are deferred in governmental funds. This amount represents property taxes not available as current financial resources.	115,292
Long-term liabilities and related items, including bonds payable (\$3,210,000), bond premiums (\$82,556), accrued compensated absences (\$66,159), loss on debt refundings \$187,009, net pension liability (\$7,232,747), pension-related deferred outflows of resources \$984,068, and pension-related deferred inflows of resources (\$223,266) are not due and payable in the current year and, therefore, are not reported in governmental funds.	(9,643,651)
Total Net Position of Governmental Activities	<u>\$ (2,913,286)</u>

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

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 Year Ended June 30, 2016

	GENERAL	BOND REDEMPTION	NONMAJOR FOOD SERVICE	TOTAL
REVENUES				
Local Sources	\$ 2,913,611	\$ 377,738	\$ 32,591	\$ 3,323,940
State Sources	975,037	-	1,398	976,435
Federal Sources	148,560	-	67,579	216,139
TOTAL REVENUES	4,037,208	377,738	101,568	4,516,514
EXPENDITURES				
Instruction	2,191,944	-	-	2,191,944
Supporting Services	1,549,405	-	-	1,549,405
Food Service	-	-	155,155	155,155
Debt Service				
Principal	-	305,000	-	305,000
Interest and Fiscal Charges	-	82,387	-	82,387
TOTAL EXPENDITURES	3,741,349	387,387	155,155	4,283,891
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	295,859	(9,649)	(53,587)	232,623
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	54,000	54,000
Transfers Out	(54,000)	-	-	(54,000)
TOTAL OTHER FINANCING SOURCES (USES)	(54,000)	-	54,000	-
NET CHANGE IN FUND BALANCES	241,859	(9,649)	413	232,623
FUND BALANCES, Beginning	916,105	589,461	315	1,505,881
FUND BALANCES, Ending	\$ 1,157,964	\$ 579,812	\$ 728	\$ 1,738,504

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

CUSTER COUNTY SCHOOL DISTRICT C-1

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

Year Ended June 30, 2016

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances of Governmental Funds	\$ 232,623
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense (\$187,942) exceeded capital outlay \$30,965 in the current year.	(156,977)
Revenues in the statement of activities that do not provide current financial resources are deferred in the governmental funds. This amount represents the change in property tax revenues not available as current financial resources.	(1,026)
Repayments of bond principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	305,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents amortization of bond premiums \$12,849, amortization of loss on debt refundings (\$25,049), change in accrued compensated absences (\$783), and changes in net pension liability (\$879,504), pension-related deferred outflows of resources \$619,426, and pension-related deferred inflows of resources (\$31,004).	<u>(304,065)</u>
Change in Net Position of Governmental Activities	\$ <u><u>75,555</u></u>

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

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2016

	<u>AGENCY</u>
ASSETS	
Cash and Investments	\$ <u>190,464</u>
LIABILITIES	
Accounts Payable	\$ 8,585
Due to Student Groups	170,878
Due to Scholarship Fund	10,625
Due to Teachers' Support Fund	<u>376</u>
TOTAL LIABILITIES	\$ <u>190,464</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Custer County School District C-1 (the “District”) conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting standards and principles. Following is a summary of the District’s more significant policies.

Reporting Entity

The financial reporting entity consists of the District, organizations for which the District is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the District. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. Legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if there is a potential for the organization to provide benefits to, or impose financial burdens on, the District.

Based on the application of this criteria, the District does not include additional organizations in its reporting entity.

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 nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

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

Separate financial statements are provided for the governmental funds and the fiduciary fund, even though the latter is excluded from the District’s government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the fund financial statements, the District reports the following major governmental funds:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those accounted for in another fund.

Bond Redemption Fund - This fund accounts for a dedicated property tax restricted for payment of the District's general obligation debt.

Additionally, the District reports the following fund type:

The *Agency Fund* accounts for funds held by the District for student organizations, student scholarships and the teachers' support fund. The District holds all resources in a purely custodial capacity.

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

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 collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current year. Taxes, intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the District. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

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

Assets, Liabilities and Fund Balances/Net Position

Cash and Investments - Investments are reported at fair value. The District's investment in a money market fund is reported at the net asset value per share, which is measured using amortized cost.

Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Property taxes levied in the current year but not received at year end are reported as property taxes receivable and are presented net of an allowance for uncollectible taxes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balances/Net Position** (Continued)

Inventories - Inventories of the Food Service Fund are valued at the lower of cost or market, using the first in, first out method. Donated commodities, received at no cost under a program supported by the federal government, are valued based upon the cost furnished by the federal government.

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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

Buildings and Improvements	20 - 50 years
Transportation Vehicles	5 - 10 years
Equipment	5 - 10 years

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

Compensated Absences - District employees are allowed one day of leave for each month of duty or contract time. Employees are compensated for 25% of accrued leave upon leaving the District at the employees' regular base rate provided they have five years of prior service in the District. These compensated absences are recognized when paid in the governmental funds. A long-term liability has been reported in the government-wide financial statements for the accrued compensated absences.

Long-Term Debt - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts, and refunding losses are deferred and amortized over the life of the debt using the straight-line method. In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

Pensions - The District participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan 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 and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balances/Net Position (Continued)**

Deferred Inflows of Resources - Property taxes earned but not available as current financial resources are reported as deferred inflows of resources in the governmental fund financial statements.

Net Position/Fund Balances - In the government-wide and fund financial statements, net position and fund balances are restricted when constraints placed on the use of resources are externally imposed. The Board of Education is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The District has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the District uses restricted fund balance first, followed by committed, assigned, and unassigned balances.

Property Tax Revenues

Property taxes attach as an enforceable lien on property on January 1, and are levied the following December. Taxes are payable in full the following April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the District on a monthly basis.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss.

The District has established a partially self-funded hospital reimbursement plan for its employees whereby the District will pay a maximum of \$5,800 each plan year for eligible hospitalization expenses for each employee. The District deposits premiums into a bank account throughout the year to be used to pay any claims. Other than current amounts, the District does not believe that incurred but not reported (IBNR) claims can be reasonably estimated. Therefore, no long-term liability is reported in the financial statements.

NOTE 2: CASH AND INVESTMENTS

At June 30, 2016, the District had the following cash and investments.

Cash on Hand	\$ 200
Deposits	1,539,270
Investments	<u>567,147</u>
Total	<u>\$ 2,106,617</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

Cash and investments are reported in the financial statements as follows:

Governmental Activities	\$ 1,916,153
Agency Fund	<u>190,464</u>
Total	<u>\$ 2,106,617</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2016, the District had bank deposits of \$1,371,729 collateralized with securities held by the financial institution's agent but not in the District's name.

Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue 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
- Guaranteed investment contracts
- Local government investment pools

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

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations. At June 30, 2016, the District had \$567,147 invested in a money market fund that was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk - State statutes do not limit the amount the District may invest in a single issuer of investment securities, except for corporate securities.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CAPITAL ASSETS

Activity for capital assets during the year ended June 30, 2016, is summarized below.

	Balances 6/30/15	Additions	Deletions	Balances 6/30/16
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Total Capital Assets, Not Being Depreciated	151,400	-	-	151,400
Capital Assets, Being Depreciated				
Buildings and Improvements	7,829,252	-	-	7,829,252
Transportation Vehicles	830,844	30,965	133,348	728,461
Equipment	47,780	-	-	47,780
Total Capital Assets, Being Depreciated	8,707,876	30,965	133,348	8,605,493
Less Accumulated Depreciation				
Buildings and Improvements	(3,089,323)	(157,580)	-	(3,246,903)
Transportation Vehicles	(694,423)	(29,206)	(133,348)	(590,281)
Equipment	(41,984)	(1,156)	-	(43,140)
Total Accumulated Depreciation	(3,825,730)	(187,942)	(133,348)	(3,880,324)
Capital Assets, Being Depreciated, Net	4,882,146	(156,977)	-	4,725,169
Governmental Activities Capital Assets, Net	<u>\$ 5,033,546</u>	<u>\$ (156,977)</u>	<u>\$ -</u>	<u>\$ 4,876,569</u>

Depreciation expense was charged to programs of the District as follows.

Governmental Activities	
Instruction	\$ 151,683
Supporting Services	35,103
Food Service	<u>1,156</u>
Total	<u>\$ 187,942</u>

NOTE 4: SHORT-TERM DEBT

During the year ended June 30, 2016, the District borrowed \$269,086 from the State-sponsored interest-free loan program to provide cash flow throughout the fiscal year. The loan was paid in full in March, 2016, from property taxes received from February through March.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2016.

	Balances 6/30/15	Additions	Payments	Balances 6/30/16	Due Within One Year
Governmental Activities					
General Obligation Bonds					
Series 2012	\$ 1,900,000	\$ -	\$ 50,000	\$ 1,850,000	\$ 55,000
Bond Premium	54,933	-	6,104	48,829	-
Series 2014	1,615,000	-	255,000	1,360,000	255,000
Bond Premium	40,472	-	6,745	33,727	-
Compensated Absences	65,376	783	-	66,159	10,601
Total	<u>\$ 3,675,781</u>	<u>\$ 783</u>	<u>\$ 317,849</u>	<u>\$ 3,358,715</u>	<u>\$ 320,601</u>

General Obligation Bonds

In April, 2012, the District issued \$1,900,000 General Obligation Refunding Bonds and \$110,000 of registered coupons to refund \$1,755,000 of the existing General Obligation Bonds, Series 2004, originally issued to construct a physical education complex. Interest payments are due semi-annually on June 1 and December 1, with interest accruing at rates ranging from .75% to 3% per annum. Principal payments are due annually on December 1, through 2024.

In September, 2014, the District issued \$1,640,000 General Obligation Refunding Bonds to refund \$1,610,000 of the existing General Obligation Refunding Bonds, Series 2005, which refunded previous debt issued to finance the construction and renovation of school facilities. Interest payments are due semi-annually on June 1 and December 1, with interest accruing at 2% per annum. Principal payments are due annually on December 1, through 2020.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 310,000	\$ 74,713	\$ 384,713
2018	325,000	67,950	392,950
2019	330,000	61,112	391,112
2020	340,000	54,112	394,112
2021	345,000	46,962	391,962
2022 - 2025	1,560,000	87,069	1,647,069
Total	<u>\$ 3,210,000</u>	<u>\$ 391,918</u>	<u>\$ 3,601,918</u>

Compensated Absences

Accrued compensated absences are expected to be liquidated with revenues of the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2016, the General Fund subsidized the operations of the Food Service Fund through a transfer of \$54,000.

NOTE 7: JOINTLY GOVERNED ORGANIZATION

The District, in conjunction with other surrounding districts, created the South Central Board of Cooperative Educational Services (BOCES). The BOCES is an organization that provides member districts educational services at a shared lower cost per district. The BOCES board is comprised of one member from each participating district. The District paid \$65,314 to the BOCES during the year ended June 30, 2016. The BOCES' financial statements can be obtained by writing to South Central BOCES, 323 South Purcell Boulevard, Pueblo West, Colorado 81007, or by calling 719-647-0023.

NOTE 8: DEFINED BENEFIT PENSION PLAN

General Information

Plan Description - The District contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the District participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**General Information** (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 in place, and the qualified survivor receiving the benefits.

Contributions - The District and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The District's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the District's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 9). The District's contributions to the SDTF for the year ended June 30, 2016, were \$393,008, equal to the required contributions.

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

At June 30, 2016, the District reported a net pension liability of \$7,232,747, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on the District's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the District's proportion was 0.0472904952%, which was an increase of 0.0004147119% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$663,475. At June 30, 2016, 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>
Differences between expected and actual experience	\$ 95,509	\$ 299
Changes of assumptions and other inputs	-	102,212
Net difference between projected and actual earnings on plan investments	614,017	-
Changes in proportion	40,766	120,755
Contributions subsequent to the measurement date	<u>233,776</u>	<u>-</u>
Total	<u><u>\$ 984,068</u></u>	<u><u>\$ 223,266</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (Continued)

District contributions subsequent to the measurement date of \$233,776 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 104,330
2018	125,693
2019	170,893
2020	<u>126,110</u>
Total	<u><u>\$ 527,026</u></u>

Actuarial Assumptions - The actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

The actuarial assumptions used in the December 31, 2013, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

The long-term expected rate of return on plan investments was determined using 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease .5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the District's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Proportionate share of the net pension liability	<u>\$ 9,375,754</u>	<u>\$ 7,232,747</u>	<u>\$ 5,450,165</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

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

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The District is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The District's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$21,372, \$20,556 and \$19,618, respectively, equal to the required amounts for each year.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. At June 30, 2016, significant amounts of grant expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the District.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. In November 1997, electors within the District authorized the District to collect, retain and expend all revenues collected or received by the District effective for the 1996-97 fiscal year and each subsequent year thereafter, notwithstanding the limitations of the Amendment. The Amendment is subject to many interpretations, but the District believes it is in substantial compliance with the Amendment.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 10: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment (Continued)

As required by the Amendment, the District has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$113,000.

REQUIRED SUPPLEMENTARY INFORMATION

CUSTER COUNTY SCHOOL DISTRICT C-1

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND
 June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
District's Proportion of the Net Pension Liability	0.0472904952%	0.0468757833%	0.0489363092%
District's Proportionate Share of the Net Pension Liability	\$ 7,232,747	\$ 6,353,243	\$ 6,241,813
District's Covered-Employee Payroll	\$ 2,060,909	\$ 1,963,756	\$ 1,972,778
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
DISTRICT CONTRIBUTIONS			
Statutorily Required Contribution	\$ 371,636	\$ 340,394	\$ 307,511
Contributions in Relation to the Statutorily Required Contribution	<u>(371,636)</u>	<u>(340,394)</u>	<u>(307,511)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District's Covered-Employee Payroll	\$ 2,095,280	\$ 2,015,297	\$ 1,923,340
Contributions as a Percentage of Covered-Employee Payroll	17.74%	16.89%	15.99%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Property Taxes	\$ 2,362,854	\$ 2,362,854	\$ 2,259,954	\$ (102,900)
Specific Ownership Taxes	294,448	294,448	354,216	59,768
Delinquent Taxes, Penalties and Interest	8,700	8,300	8,062	(238)
Tuition	-	-	7,410	7,410
Donations	50,000	50,000	61,856	11,856
Investment Income	1,660	2,760	3,796	1,036
Payments in Lieu of Taxes	86,586	86,586	75,048	(11,538)
BOCES Reimbursement	7,703	9,114	9,652	538
Other	53,000	49,000	133,617	84,617
Total Local Sources	2,864,951	2,863,062	2,913,611	50,549
State Sources				
State Equalization	670,060	693,954	807,175	113,221
Additional At-Risk Funding	2,355	2,355	2,270	(85)
Transportation	46,100	39,032	40,599	1,567
Grants	121,136	126,815	124,993	(1,822)
Total State Sources	839,651	862,156	975,037	112,881
Federal Sources				
Grants	200,132	201,269	148,560	(52,709)
TOTAL REVENUES	3,904,734	3,926,487	4,037,208	110,721
EXPENDITURES				
Instruction	2,122,687	2,139,397	2,191,944	(52,547)
Supporting Services				
Students	196,594	197,107	77,981	119,126
Instructional Staff	19,768	23,167	22,075	1,092
General Administration	355,166	357,382	347,780	9,602
School Administration	243,619	247,917	259,947	(12,030)
Business Services	74,502	76,177	75,175	1,002
Operations and Maintenance	494,821	496,611	419,639	76,972
Student Transportation	260,278	246,294	247,190	(896)
Central Support	116,965	119,131	43,074	76,057
Other Support	29,850	35,822	22,917	12,905
Facilities	25,000	25,000	33,627	(8,627)
Total Supporting Services	1,816,563	1,824,608	1,549,405	275,203
TOTAL EXPENDITURES	3,939,250	3,964,005	3,741,349	222,656
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(34,516)	(37,518)	295,859	333,377
OTHER FINANCING SOURCES (USES)				
Transfers Out	(35,000)	(35,000)	(54,000)	(19,000)
NET CHANGE IN FUND BALANCE	(69,516)	(72,518)	241,859	314,377
FUND BALANCE, Beginning	773,930	916,105	916,105	-
FUND BALANCE, Ending	\$ 704,414	\$ 843,587	\$ 1,157,964	\$ 314,377

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The District's contributions and related ratios represent cash contributions and any related accruals that coincide with the District's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Information**

Budgets are adopted for all funds on a basis consistent with generally accepted accounting principles. The District adheres to the following procedures in establishing the budgetary information reflected in the financial statements.

- By May 31, management submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the Board of Education to obtain taxpayer comments.
- Prior to June 30, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- All appropriations lapse at fiscal year end.

SUPPLEMENTARY INFORMATION

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEBOND REDEMPTION FUND

Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Property Taxes	\$ 407,741	\$ 374,446	\$ 377,685	\$ 3,239
Investment Income	10,000	10,000	53	(9,947)
TOTAL REVENUES	417,741	384,446	377,738	(6,708)
EXPENDITURES				
Debt Service				
Principal	290,000	305,000	305,000	-
Interest and Fiscal Charges	127,741	91,388	82,387	9,001
TOTAL EXPENDITURES	417,741	396,388	387,387	9,001
NET CHANGE IN FUND BALANCE	-	(11,942)	(9,649)	2,293
FUND BALANCE, Beginning	588,908	589,461	589,461	-
FUND BALANCE, Ending	\$ 588,908	\$ 577,519	\$ 579,812	\$ 2,293

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEFOOD SERVICE FUND

Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Charges for Services	\$ 37,000	\$ 37,000	\$ 32,591	\$ (4,409)
State Sources				
Grants	2,175	2,175	1,398	(777)
Federal Sources				
Grants	65,576	80,576	67,579	(12,997)
TOTAL REVENUES	104,751	119,751	101,568	(18,183)
EXPENDITURES				
Salaries	66,396	67,907	63,979	3,928
Employee Benefits	35,534	35,056	32,600	2,456
Purchased Services	1,050	1,050	989	61
Supplies and Materials	62,500	77,500	57,587	19,913
Capital Outlay	5,000	5,000	-	5,000
TOTAL EXPENDITURES	170,480	186,513	155,155	31,358
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,729)	(66,762)	(53,587)	13,175
OTHER FINANCING SOURCES				
Transfers In	65,729	66,762	54,000	(12,762)
NET CHANGE IN FUND BALANCE	-	-	413	413
FUND BALANCE, Beginning	-	-	315	315
FUND BALANCE, Ending	\$ -	\$ -	\$ 728	\$ 728

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year Ended June 30, 2016

	BALANCES 6/30/15	ADDITIONS	DEDUCTIONS	BALANCES 6/30/16
ASSETS				
Cash and Investments	\$ <u>181,132</u>	\$ <u>233,663</u>	\$ <u>224,331</u>	\$ <u>190,464</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 8,585	\$ -	\$ 8,585
Due to Student Groups	170,131	225,078	224,331	170,878
Due to Scholarship Fund	10,625	-	-	10,625
Due to Teachers' Support Fund	<u>376</u>	<u>-</u>	<u>-</u>	<u>376</u>
TOTAL LIABILITIES	\$ <u>181,132</u>	\$ <u>233,663</u>	\$ <u>224,331</u>	\$ <u>190,464</u>

See the accompanying Independent Auditors' Report.

COMPLIANCE SECTION



Colorado Department of Education
Auditors Integrity Report
District: 0860 - CUSTER COUNTY SCHOOL DISTRICT C-1
Fiscal Year 2015-16
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	828,975		3,912,264	3,698,278		1,042,961
18 Risk Mgmt Sub-Fund of General Fund	87,131		70,945	43,074		115,002
19 Colorado Preschool Program Fund	0		0	0		0
Sub-Total	916,106		3,983,208	3,741,352		1,157,963
11 Charter School Fund	0		0	0		0
20.26-29 Special Revenue Fund	0		0	0		0
21 Food Service Spec Revenue Fund	314		155,570	155,155		729
22 Govt Designated-Purpose Grants Fund	0		0	0		0
23 Pupil Activity Special Revenue Fund	0		0	0		0
24 Full Day Kindergarten Mill Levy Override	0		0	0		0
25 Transportation Fund	0		0	0		0
31 Bond Redemption Fund	589,462		377,738	387,388		579,813
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
Totals	1,505,882		4,516,517	4,283,895		1,738,504
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	181,132		225,078	224,331		181,879
79 GASB 34 Permanent Fund	0		0	0		0
85 Foundations	0		0	0		0
Totals	181,132		225,078	224,331		181,879
FINAL						

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