

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

**FINANCIAL STATEMENTS**

**June 30, 2017**

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

**ROSTER OF SCHOOL OFFICIALS**

June 30, 2017

**BOARD OF EDUCATION**

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

**ADMINISTRATIVE STAFF**

Mark Payler  
Superintendent  
  
Amy Perschbacher  
Business Manager

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## **FINANCIAL SECTION**



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, 2017, 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, 2017, 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.



February 24, 2018

**CUSTER COUNTY SCHOOL DISTRICT C-1**  
Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2017

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, 2017. 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, 2017 was the second 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 17 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 2017, the general fund carryover balance reflects an increase of \$69,578 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. New Chromebooks were purchased for elementary classes and new laptop computers were purchased for teachers as part of a three year rotation cycle. New lunchroom tables/benches were purchased to replace old equipment. A facilities maintenance master plan was produced and used as a basis for a successful BEST grant application for the upcoming year. A 2018 Bluebird bus 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 damaged sewer lines behind the high school wing. The elementary/middle school great room was remodeled into an additional computer lab. 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 \$77,433 to the District over the last ten fiscal years.

The District had twenty fewer students enrolled than in the 2015-2016 school year; however, funded student count was down by 14.5 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 \$2,632,523, an increase of \$18,353 from local tax revenue from the previous year. State equalization revenue amounted to an additional \$756,969, reflecting a decrease of \$50,206 from the previous year's state equalization funding. The negative factor in school funding continues to force budget constraints for the District. For fiscal year 2017, the district received \$435,258 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 (\$4,940,750). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$13,875,630, representing the District's proportionate share of PERA's net pension liability. Of this amount, \$(7,496,658) is unrestricted. \$1,885,561 is the District's net investment in capital assets. \$110,000 is restricted (reserved for emergencies) to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. In addition, \$560,347 is restricted for debt service.

**Net Position****Governmental**

	<b>2016</b>	<b>2017</b>
Assets		
Current Assets	\$ 2,157,225	\$ 2,209,376
Capital Assets-Net	<u>4,876,569</u>	<u>4,863,192</u>
<b>Total Assets</b>	<u>\$ 7,033,794</u>	<u>\$ 7,072,568</u>
Deferred Outflows of Resources	\$ 1,171,077	\$ 5,572,712
Liabilities		
Current Liabilities	\$ 303,429	\$ 320,775
Noncurrent Liabilities	<u>\$10,591,462</u>	<u>\$17,077,110</u>
<b>Total Liabilities</b>	<u>\$10,894,891</u>	<u>\$17,397,885</u>
Deferred Inflows of Resources	\$ 223,266	\$ 188,145
Net Position		
Net Investment in Capital Assets	\$ 1,771,022	\$ 1,885,561
Restricted	709,232	670,347
Unrestricted	<u>\$(5,393,540)</u>	<u>(7,496,658)</u>
<b>Total Net Position</b>	<u>\$(2,913,286)</u>	<u>\$(4,940,750)</u>
<b>Change in Net Position</b>		
Revenues		
Property Taxes	\$ 2,644,675	\$ 2,637,320
SO Taxes	354,216	353,566
Equalization	807,175	756,969
Charges for Services	40,001	42,398
Operating Grants and Contributions	283,339	299,358
Other Revenues	<u>386,082</u>	<u>254,318</u>
<b>Total Revenue</b>	<u>\$ 4,515,488</u>	<u>\$ 4,343,929</u>
Expenses		
Instruction	\$ 2,547,780	\$ 3,761,345
Support Services	1,632,643	2,349,343
Interest on Long-Term Debt	94,587	87,912
Food Service	<u>164,923</u>	<u>172,793</u>
<b>Total Expenses</b>	<u>\$ 4,439,933</u>	<u>\$ 6,371,393</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 75,555</u>	<u>\$ (2,027,464)</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>
Net Position, June 30, 2017		<u>\$(4,940,750)</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 \$1,773,977, an increase of \$35,473 (reflecting slightly higher than budgeted tax revenues, and lower than anticipated budgeted expenditures in some areas). Maintaining the facilities was all that the 2017 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 2017, 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 \$69,578 (from \$1,157,964 to \$1,227,542).

The Bond Redemption Fund ending fund balance decreased by \$34,672 (from \$579,812 to \$545,140). 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 \$4,084,868 for the year ended June 30, 2017. Expenditures actually made in the General Fund totaled \$3,972,684. Budgeted revenues were projected at \$3,875,875 and actually came in at \$3,893,378. Revenues reflect a slight decrease 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, 2017, amounts to \$4,863,192. 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, 2017, the District had \$1,105,000 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 \$1,795,000 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 \$61,889 are future liabilities. More information on the District's long-term debt can be found in Note 4 to the financial statements.

Two new capital lease/purchase agreements were approved and entered into in fiscal year 2017. The first was to remodel an existing old preschool building into four apartments for affordable teacher housing in order to recruit and retain quality teachers. The outstanding balance for that agreement at the end of the fiscal year was \$70,182. The second agreement was for the purchase of a 2018 Bluebird bus to replace an old bus at a cost to the District of \$99,702.

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

The primary factor driving the budget for the District is student enrollment. Enrollment for 2016-2017 was 373 students in preschool-12<sup>th</sup> grades with funded count being 361.9. This figure was a decrease in actual enrollment (down from 393) and a decrease in funded student count from the previous year (376.4). The enrollment projected for the 2017-2018 school year was held stable at 373 students. This factor was considered in preparing the District's budget for 2017-2018.

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 2017-2018. 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, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,928,971
Accounts Receivable	19,558
Taxes Receivable	251,819
Grants Receivable	6,161
Inventories	2,867
Capital Assets, Net of Accumulated Depreciation	<u>4,863,192</u>
 TOTAL ASSETS	 <u>7,072,568</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Loss on Debt Refundings, Net of Accumulated Amortization	161,960
Pensions, Net of Accumulated Amortization	<u>5,410,752</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>5,572,712</u>
<b>LIABILITIES</b>	
Accounts Payable	16,601
Claims Payable	16,309
Accrued Salaries and Benefits	287,865
Noncurrent Liabilities	
Due Within One Year	367,819
Due in More Than One Year	2,833,661
Net Pension Liability	<u>13,875,630</u>
 TOTAL LIABILITIES	 <u>17,397,885</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>188,145</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,885,561
Restricted for Debt Service	560,347
Restricted for Emergencies	110,000
Unrestricted	<u>(7,496,658)</u>
 TOTAL NET POSITION	 <u>\$ (4,940,750)</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, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGE IN NET POSITION
				GOVERNMENTAL ACTIVITIES
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 3,761,345	\$ 7,279	\$ 156,217	\$ (3,597,849)
Supporting Services	2,349,343	-	78,081	(2,271,262)
Food Service	172,793	35,119	65,060	(72,614)
Interest and Fiscal Charges	87,912	-	-	(87,912)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 6,371,393</u>	<u>\$ 42,398</u>	<u>\$ 299,358</u>	<u>(6,029,637)</u>
<b>GENERAL REVENUES</b>				
Local Property Taxes				2,637,320
Specific Ownership Taxes				353,566
State Equalization				756,969
Grants and Contributions not Restricted to Specific Programs				83,195
Investment Income				4,448
Other				166,675
<b>TOTAL GENERAL REVENUES</b>				<u>4,002,173</u>
				<b>CHANGE IN NET POSITION</b>
				(2,027,464)
				<b>NET POSITION, Beginning</b>
				<u>(2,913,286)</u>
				<b>NET POSITION, Ending</b>
				<u>\$ (4,940,750)</u>

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

CUSTER COUNTY SCHOOL DISTRICT C-1

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

	<u>GENERAL</u>	<u>BOND REDEMPTION</u>	<u>NONMAJOR FOOD SERVICE</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and Investments	\$ 1,392,641	\$ 530,950	\$ 5,380	\$ 1,928,971
Accounts Receivable	19,349	-	209	19,558
Taxes Receivable	222,422	29,397	-	251,819
Grants Receivable	6,087	-	74	6,161
Inventories	-	-	2,867	2,867
<b>TOTAL ASSETS</b>	<u>\$ 1,640,499</u>	<u>\$ 560,347</u>	<u>\$ 8,530</u>	<u>\$ 2,209,376</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 16,601	\$ -	\$ -	\$ 16,601
Claims Payable	16,309	-	-	16,309
Accrued Salaries and Benefits	280,630	-	7,235	287,865
<b>TOTAL LIABILITIES</b>	<u>313,540</u>	<u>-</u>	<u>7,235</u>	<u>320,775</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes	99,417	15,207	-	114,624
<b>FUND BALANCES</b>				
Nonspendable Inventories	-	-	2,867	2,867
Restricted for Debt Service	-	545,140	-	545,140
Restricted for Emergencies	110,000	-	-	110,000
Unrestricted, Unassigned	1,117,542	-	(1,572)	1,115,970
<b>TOTAL FUND BALANCES</b>	<u>1,227,542</u>	<u>545,140</u>	<u>1,295</u>	<u>1,773,977</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 1,640,499</u>	<u>\$ 560,347</u>	<u>\$ 8,530</u>	<u>\$ 2,209,376</u>

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

Total Fund Balances of Governmental Funds	\$ 1,773,977
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	4,863,192
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.	114,624
Long-term liabilities and related items, including bonds payable (\$2,900,000), leases payable (\$169,884), bond premiums (\$69,707), accrued compensated absences (\$61,889), loss on debt refundings \$161,960, net pension liability (\$13,875,630), pension-related deferred outflows of resources \$5,410,752, and pension-related deferred inflows of resources (\$188,145), are not due and payable in the year and, therefore, are not reported in governmental funds.	<u>(11,692,543)</u>
<b>Total Net Position of Governmental Activities</b>	<u>\$ (4,940,750)</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, 2017

	GENERAL	BOND REDEMPTION	NONMAJOR FOOD SERVICE	TOTAL
<b>REVENUES</b>				
Local Sources	\$ 2,895,358	\$ 351,040	\$ 35,119	\$ 3,281,517
State Sources	834,085	-	1,923	836,008
Federal Sources	163,935	-	63,137	227,072
<b>TOTAL REVENUES</b>	<b>3,893,378</b>	<b>351,040</b>	<b>100,179</b>	<b>4,344,597</b>
<b>EXPENDITURES</b>				
Instruction	2,148,232	-	-	2,148,232
Supporting Services	1,824,452	-	-	1,824,452
Food Service	-	-	120,612	120,612
Debt Service				
Principal	-	310,000	-	310,000
Interest and Fiscal Charges	-	75,712	-	75,712
<b>TOTAL EXPENDITURES</b>	<b>3,972,684</b>	<b>385,712</b>	<b>120,612</b>	<b>4,479,008</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(79,306)</b>	<b>(34,672)</b>	<b>(20,433)</b>	<b>(134,411)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease Proceeds	169,884	-	-	169,884
Transfers In	-	-	21,000	21,000
Transfers Out	(21,000)	-	-	(21,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>148,884</b>	<b>-</b>	<b>21,000</b>	<b>169,884</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>69,578</b>	<b>(34,672)</b>	<b>567</b>	<b>35,473</b>
FUND BALANCES, Beginning	1,157,964	579,812	728	1,738,504
FUND BALANCES, Ending	<u>\$ 1,227,542</u>	<u>\$ 545,140</u>	<u>\$ 1,295</u>	<u>\$ 1,773,977</u>

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, 2017

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

Net Change in Fund Balances of Governmental Funds	\$ 35,473
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 (\$187,941) exceeded capital outlay \$174,564 in the current year.	(13,377)
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.	(668)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. This amount represents lease proceeds in the current year.	(169,884)
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.	310,000
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 \$4,270, and changes in net pension liability (\$6,642,883), pension-related deferred outflows of resources \$4,426,684, and pension-related deferred inflows of resources \$35,121.	<u>(2,189,008)</u>
Change in Net Position of Governmental Activities	<u>\$ (2,027,464)</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, 2017

	<u>AGENCY</u>
<b>ASSETS</b>	
Cash and Investments	<u>\$ 174,380</u>
<b>LIABILITIES</b>	
Due to Student Groups	\$ 163,379
Due to Scholarship Fund	10,625
Due to Teachers' Support Fund	<u>376</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 174,380</u>

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

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**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.

**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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

*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 agency 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**

*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.

*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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Fund Balances/Net Position (Continued)**

*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 to ten 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 due in the governmental funds. A long-term liability is reported in the government-wide financial statements for the accrued compensated absences when earned.

*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.

*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.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Fund Balances/Net Position (Continued)**

*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 Taxes**

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, 2017, the District had the following cash and investments.

Cash on Hand	\$	200
Deposits		1,572,201
Investments		<u>530,950</u>
Total	\$	<u><b>2,103,351</b></u>

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 2: CASH AND INVESTMENTS (Continued)**

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

Governmental Activities	\$ 1,928,971
Agency Fund	<u>174,380</u>
Total	<u><u>\$ 2,103,351</u></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, 2017, the District had bank deposits of \$1,416,399 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

*Fair Value Measurements* - At June 30, 2017, the District's investment in a money market fund was reported at the net asset value per share, with each share valued at \$1.

*Interest Rate Risk* - State statutes generally limit the maturity of investment securities to five years from the date of purchase, 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, 2017, the District had \$530,950 invested in the Federated Treasury Obligations Fund, a money market fund rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

*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.

**NOTE 3: CAPITAL ASSETS**

Activity for capital assets during the year ended June 30, 2017, is summarized below.

	<u>Balances</u> 6/30/16	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/17
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Total Capital Assets, Not Being Depreciated	<u>151,400</u>	<u>-</u>	<u>-</u>	<u>151,400</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	7,829,252	74,892	-	7,904,114
Transportation Vehicles	728,461	99,702	44,901	783,262
Equipment	47,780	-	-	47,780
Total Capital Assets, Being Depreciated	<u>8,605,493</u>	<u>174,564</u>	<u>44,901</u>	<u>8,735,156</u>
Less Accumulated Depreciation				
Buildings and Improvements	(3,246,903)	(157,580)	-	(3,404,483)
Transportation Vehicles	(590,281)	(29,205)	(44,901)	(574,585)
Equipment	(43,140)	(1,156)	-	(44,296)
Total Accumulated Depreciation	<u>(3,880,324)</u>	<u>(187,941)</u>	<u>(44,901)</u>	<u>(4,023,364)</u>
Capital Assets, Being Depreciated, Net	<u>4,725,169</u>	<u>(13,377)</u>	<u>-</u>	<u>4,711,792</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,876,569</u>	<u>\$ (13,377)</u>	<u>\$ -</u>	<u>\$ 4,863,192</u>

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

Governmental Activities	
Instruction	\$ 150,517
Supporting Services	36,268
Food Service	<u>1,156</u>
Total	<u>\$ 187,941</u>

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2017.

	Balances <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	Balances <u>6/30/17</u>	Due Within <u>One Year</u>
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
Series 2012	\$ 1,850,000	\$ -	\$ 55,000	\$ 1,795,000	\$ 55,000
Bond Premium	48,829	-	6,104	42,725	-
Series 2014	1,360,000	-	255,000	1,105,000	270,000
Bond Premium	33,727	-	6,745	26,982	-
2016 Building Lease	-	70,182	-	70,182	-
2017 Bus Lease	-	99,702	-	99,702	32,232
Compensated Absences	66,159	-	4,270	61,889	10,587
<b>Total</b>	<b><u>\$ 3,358,715</u></b>	<b><u>\$ 169,884</u></b>	<b><u>\$ 327,119</u></b>	<b><u>\$ 3,201,480</u></b>	<b><u>\$ 367,819</u></b>

**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>
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	375,000	37,737	412,737
2023 - 2025	<u>1,185,000</u>	<u>49,332</u>	<u>1,234,332</u>
<b>Total</b>	<b><u>\$ 2,900,000</u></b>	<b><u>\$ 317,205</u></b>	<b><u>\$ 3,217,205</u></b>

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 4: LONG-TERM DEBT (Continued)**

**Capital Leases**

In September, 2016, the District entered into a lease/purchase agreement with First State Bank of Colorado to renovate an apartment building to be used for teacher housing. The lease term will automatically renew annually through September 13, 2040. In addition, the District has the option to purchase the renovations at any time during the term of the lease agreement by paying the outstanding balance in full. Interest accrues on the outstanding balance at 4.25% per annum and is payable monthly through September 12, 2018. Monthly principal and interest payments of \$1,137 are due thereafter, through September 14, 2041. At June 30, 2017, the outstanding balance of the lease was \$70,182.

In June, 2017, the District entered into a lease agreement with First State Bank of Colorado to purchase a bus for \$99,702. Monthly principal and interest payments of \$2,901 are due under the lease agreement from July, 2017 through June, 2020, with interest accruing at 3.04% per annum. Assets of \$99,702 have been capitalized under this lease agreement. Following is a schedule of the future minimum lease payments required by the lease agreement.

Year Ended December 31,

2018	\$ 34,816
2019	34,816
2020	<u>34,816</u>
Total Minimum Lease Payments	104,448
Less: Interest Portion	<u>(4,746)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 99,702</u></u>

**Compensated Absences**

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

**NOTE 5: INTERFUND TRANSACTIONS**

During the year ended June 30, 2017, the General Fund subsidized the operations of the Food Service Fund through a transfer of \$21,000.

**NOTE 6: 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 \$72,972 to the BOCES during the year ended June 30, 2017. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: 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](http://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 may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. 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.

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 2016 and 2017 was 19.15% and 19.65% 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 8). The District's contributions to the SDTF for the year ended June 30, 2017, were \$404,241, equal to the required contributions.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

At June 30, 2017, the District reported a net pension liability of \$13,875,630, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

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, 2016, relative to the contributions of all participating employers. At December 31, 2016, the District's proportion was 0.0466033858%, which was a decrease of 0.0006871094% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,565,370. At June 30, 2017, 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	\$ 174,329	\$ 123
Changes of assumptions and other inputs	4,502,352	63,495
Net difference between projected and actual earnings on plan investments	469,893	-
Changes in proportion	25,324	124,527
Contributions subsequent to the measurement date	<u>238,854</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 5,410,752</u></b>	<b><u>\$ 188,145</u></b>

District contributions subsequent to the measurement date of \$238,854 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,

2018	\$ 1,969,408
2019	2,014,608
2020	995,109
2021	<u>4,628</u>
<b>Total</b>	<b><u>\$ 4,983,753</u></b>

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	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. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

The actuarial assumptions used in the December 31, 2015, 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.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

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.

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

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	<b>100.00%</b>	

*Discount Rate* - The discount rate used to measure the total pension liability was 5.26%. 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 0.5% each year, to a minimum of 10.15%.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

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

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

*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 5.26%, as well as the District's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

	<u>1% Decrease (4.26%)</u>	<u>Current Discount Rate (5.26%)</u>	<u>1% Increase (6.26%)</u>
Proportionate share of the net pension liability	<u>\$ 17,448,159</u>	<u>\$ 13,875,630</u>	<u>\$ 10,965,935</u>

*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](http://www.copera.org/investments/pera-financial-reports).

**NOTE 8: 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, 2017, 2016 and 2015 was \$21,250, \$21,372 and \$20,556, respectively, equal to the required amounts for each year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 9: 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, 2017, 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.

In accordance with the Amendment, the District has established a reserve for emergencies, representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$110,000.

**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, 2017

	<u>12/31/16</u>	<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	0.0466033858%	0.0472904952%	0.0468757833%	0.0489363092%
District's Proportionate Share of the Net Pension Liability	\$ 13,875,630	\$ 7,232,747	\$ 6,353,243	\$ 6,241,813
District's Covered Payroll	\$ 2,091,642	\$ 2,060,909	\$ 1,963,756	\$ 1,972,778
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
DISTRICT CONTRIBUTIONS				
Statutorily Required Contribution	\$ 382,991	\$ 371,636	\$ 340,394	\$ 307,511
Contributions in Relation to the Statutorily Required Contribution	<u>(382,991)</u>	<u>(371,636)</u>	<u>(340,394)</u>	<u>(307,511)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,083,315	\$ 2,095,280	\$ 2,015,297	\$ 1,923,340
Contributions as a Percentage of Covered Payroll	18.38%	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 SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
<b>Local Sources</b>				
Property Taxes	\$ 2,283,189	\$ 2,283,189	\$ 2,278,957	\$ (4,232)
Specific Ownership Taxes	300,411	300,411	353,566	53,155
Delinquent Taxes, Penalties and Interest	8,300	8,300	8,133	(167)
Tuition	-	-	7,279	7,279
Donations	50,000	50,000	50,000	-
Investment Income	2,760	2,760	4,306	1,546
Payments in Lieu of Taxes	80,000	80,000	17,147	(62,853)
BOCES Reimbursement	9,114	5,500	9,295	3,795
Other	84,400	109,900	166,675	56,775
Total Local Sources	<u>2,818,174</u>	<u>2,840,060</u>	<u>2,895,358</u>	<u>55,298</u>
<b>State Sources</b>				
State Equalization	776,096	761,582	756,969	(4,613)
Additional At-Risk Funding	2,355	2,355	2,253	(102)
Transportation	39,032	37,000	41,020	4,020
Grants	27,335	22,153	33,843	11,690
Total State Sources	<u>844,818</u>	<u>823,090</u>	<u>834,085</u>	<u>10,995</u>
<b>Federal Sources</b>				
Grants	210,080	212,725	163,935	(48,790)
<b>TOTAL REVENUES</b>	<u>3,873,072</u>	<u>3,875,875</u>	<u>3,893,378</u>	<u>17,503</u>
<b>EXPENDITURES</b>				
Instruction	2,064,863	2,110,895	2,148,232	(37,337)
<b>Supporting Services</b>				
Students	225,335	238,554	110,374	128,180
Instructional Staff	35,835	36,629	37,867	(1,238)
General Administration	366,446	372,441	375,517	(3,076)
School Administration	269,715	269,619	277,589	(7,970)
Business Services	79,329	82,929	102,909	(19,980)
Operations and Maintenance	502,029	501,120	422,018	79,102
Student Transportation	235,545	233,721	308,972	(75,251)
Central Support	209,460	213,960	50,136	163,824
Other Support	-	-	27,962	(27,962)
Facilities	25,000	25,000	111,108	(86,108)
Total Supporting Services	<u>1,948,694</u>	<u>1,973,973</u>	<u>1,824,452</u>	<u>149,521</u>
<b>TOTAL EXPENDITURES</b>	<u>4,013,557</u>	<u>4,084,868</u>	<u>3,972,684</u>	<u>112,184</u>

(Continued)

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(140,485)	(208,993)	(79,306)	129,687
OTHER FINANCING SOURCES (USES)				
Lease Proceeds	-	-	169,884	169,884
Transfers Out	(35,000)	(35,000)	(21,000)	14,000
TOTAL OTHER FINANCING SOURCES (USES)	(35,000)	(35,000)	148,884	183,884
NET CHANGE IN FUND BALANCE	(175,485)	(243,993)	69,578	313,571
FUND BALANCE, Beginning	963,869	1,158,961	1,157,964	(997)
FUND BALANCE, Ending	<u>\$ 788,384</u>	<u>\$ 914,968</u>	<u>\$ 1,227,542</u>	<u>\$ 312,574</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

**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, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

**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 to establish the budgetary information reported 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 SCHEDULE  
BOND REDEMPTION FUND  
 Year Ended June 30, 2017

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Local Sources			
Property Taxes	\$ 348,233	\$ 350,898	\$ 2,665
Investment Income	10,000	142	(9,858)
	<u>358,233</u>	<u>351,040</u>	<u>(7,193)</u>
TOTAL REVENUES			
EXPENDITURES			
Debt Service			
Principal	310,000	310,000	-
Interest and Fiscal Charges	84,713	75,712	9,001
	<u>394,713</u>	<u>385,712</u>	<u>9,001</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	(36,480)	(34,672)	1,808
FUND BALANCE, Beginning	<u>579,812</u>	<u>579,812</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 543,332</u>	<u>\$ 545,140</u>	<u>\$ 1,808</u>

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULE

FOOD SERVICE FUND

Year Ended June 30, 2017

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Local Sources			
Charges for Services	\$ 37,000	\$ 35,119	\$ (1,881)
State Sources			
Grants	2,175	1,923	(252)
Federal Sources			
Grants	80,576	63,137	(17,439)
TOTAL REVENUES	<u>119,751</u>	<u>100,179</u>	<u>(19,572)</u>
EXPENDITURES			
Salaries	52,166	50,138	2,028
Employee Benefits	26,072	23,954	2,118
Purchased Services	1,050	1,049	1
Supplies and Materials	80,000	45,471	34,529
Capital Outlay	5,000	-	5,000
TOTAL EXPENDITURES	<u>164,288</u>	<u>120,612</u>	<u>43,676</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(44,537)	(20,433)	24,104
OTHER FINANCING SOURCES			
Transfers In	44,537	21,000	(23,537)
NET CHANGE IN FUND BALANCE	-	567	567
FUND BALANCE, Beginning	-	728	728
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ 1,295</u>	<u>\$ 1,295</u>

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, 2017

	<u>BALANCES</u> 6/30/16	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCES</u> 6/30/17
<b>ASSETS</b>				
Cash and Investments	\$ 190,464	\$ 244,828	\$ 260,912	\$ 174,380
<b>LIABILITIES</b>				
Accounts Payable	\$ 8,585	\$ -	\$ 8,585	\$ -
Due to Student Groups	170,878	244,828	252,327	163,379
Due to Scholarship Fund	10,625	-	-	10,625
Due to Teachers' Support Fund	376	-	-	376
<b>TOTAL LIABILITIES</b>	<u>\$ 190,464</u>	<u>\$ 244,828</u>	<u>\$ 260,912</u>	<u>\$ 174,380</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 2016-17  
Colorado School District/BOCES

**Revenues, Expenditures, & Fund Balance by Fund**

Fund Type & Number	Governmental	Beg Fund Balance & Prior Per Adj (6880*)	+	1000 - 5999 Total Revenues & Other Sources	-	0001-0999 Total Expenditures & Other Uses	=	6700-6799 & Prior Per Adj Ending Fund Balance
10	General Fund		1,042,961	4,029,693		3,922,545		1,150,109
18	Risk Mgmt Sub-Fund of General Fund		115,002	12,568		50,136		77,433
19	Colorado Preschool Program Fund		0			0		0
	<b>Sub- Total</b>		<b>1,157,963</b>	<b>4,042,261</b>		<b>3,972,682</b>		<b>1,227,542</b>
11	Charter School Fund		0			0		0
20,26-29	Special Revenue Fund		0			0		0
06	Supplemental Cap Const, Tech, Main, Fund		0			0		0
21	Food Service Spec Revenue Fund		729	121,178		120,613		1,294
22	Govt Designated-Purpose Grants Fund		0			0		0
23	Pupil Activity Special Revenue Fund		0			0		0
24	Full Day Kindergarten Mill Levy Override		0			0		0
25	Transportation Fund		0			0		0
31	Bond Redemption Fund		579,813	351,040		385,713		545,140
39	Certificate of Participation (COP) Debt Service Fund		0			0		0
41	Building Fund		0			0		0
42	Special Building Fund		0			0		0
43	Capital Reserve Capital Projects Fund		0			0		0
46	Supplemental Cap Const, Tech, Main Fund		0			0		0
	<b>Totals</b>		<b>1,738,504</b>	<b>4,514,479</b>		<b>4,479,007</b>		<b>1,773,977</b>
50	Other Enterprise Funds		0			0		0
64 (63)	Risk-Related Activity Fund		0			0		0
60,65-69	Other Internal Service Funds		0			0		0
	<b>Totals</b>		<b>0</b>	<b>0</b>		<b>0</b>		<b>0</b>
70	Other Trust and Agency Funds		0			0		0
72	Private Purpose Trust Fund		0			0		0
73	Agency Fund		0			0		0
74	Pupil Activity Agency Fund		181,879	244,828		252,327		174,380
79	GASB 34:Permanent Fund		0			0		0
85	Foundations		0			0		0
	<b>Totals</b>		<b>181,879</b>	<b>244,828</b>		<b>252,327</b>		<b>174,380</b>
				<b>FINAL</b>				<b>174,380</b>