

**KITTREDGE SANITATION
AND
WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2016 and 2015**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kittredge Sanitation and Water District
Kittredge, Colorado

We have audited the accompanying financial statements of the business-type activities of Kittredge Sanitation and Water District as of, and for the years ended December 31, 2016 and 2015, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements as listed in the table of contents present fairly, in all material respects, the financial position of the business-type activities of Kittredge Sanitation and Water District as of December 31, 2016 and 2015 and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information included on pages 3-5 and 16 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



VALENTINE SEEVERS & ASSOCIATES, PC

June 23, 2017

MANAGEMENTS DISCUSSION AND ANALYSIS DECEMBER 31, 2016

In general, the purpose of financial reporting is to provide external parties who read financial statements with information that will help them to make decisions or draw conclusions about an entity. The Kittredge Sanitation and Water District's discussion and analysis is designed to assist the various readers by providing an overview of the District's financial position and activities as of and for the year ended December 31, 2016. Since this discussion is designed to focus on the current years' activities, please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total assets exceeded its liabilities at the end of the year by \$2,262,753 (net position).
- As of the close of the year, the unrestricted net position of the District was \$528,652 or 98% of the total District expenditures (excluding depreciation) for operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic financial statements are comprised of three components, government-wide financial statements, fund financial statements and notes to the financial statements.

Governmental funds statements show how general governmental services are financed. Proprietary fund statements offer short and long-term financial information about the activities the government that operate like business, such as the water and sewer services.

Government-Wide Financial Statements

Government-wide financial statements provide both long-term and short-term information about a District's overall financial status and report information about all of the District's activities in a manner similar to a private-sector business. Because Kittredge Sanitation and Water District has no general governmental services it reports only fund financial statements.

Fund Financial Statements

Fund financial statements focus on individual parts of a District government, reporting the District's operations in more detail than government-wide statements. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by outside parties or governmental statutes or regulations. Typically a District's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The District's fund financial statements consist solely of a proprietary fund.

Proprietary Funds

The District uses proprietary funds to account for business-type activities that charge fees to customers for the use of specific goods or services. The balances and activities accounted for in the District's enterprise funds (a type of proprietary fund) are also reported in the government-wide financial statements. Both report long and short-term financial information, but the enterprise fund statements provide more detail and additional information, such as cash flows.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,262,753 at the close of the most recent fiscal year.

\$1,297,914 (57%) of the District's net position reflects its investment in capital assets (land, building, wastewater outflow lines, and equipment) less related liabilities to acquire those assets that is still outstanding, if any. These assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related liabilities, it should be noted that the funds necessary to repay any liabilities must be provided from other sources, since the assets themselves cannot be used to repay the liabilities. There were no liabilities outstanding against the capital assets as of December 31, 2016.

Restricted net position represents resources subject to external restrictions as to how the assets may be used by the District. Unrestricted net position represents resources that may be used to meet the District's ongoing obligations to citizens and creditors.

The District's net positions were:

| | Business-type | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| Current and other assets | \$ 1,048,115 | \$ 1,006,859 |
| Capital assets | 1,297,914 | 1,384,371 |
| Total Assets | <u>2,346,029</u> | <u>2,391,230</u> |
| Other liabilities | <u>27,131</u> | <u>21,671</u> |
| Deferred Inflows of Resources | <u>56,145</u> | <u>55,807</u> |
| Net Position | | |
| Invested in capital assets, net of related debt | 1,297,914 | 1,384,371 |
| Restricted | 436,187 | 441,136 |
| Unrestricted | <u>528,652</u> | <u>488,245</u> |
| Total Net Position | <u>\$ 2,262,753</u> | <u>\$ 2,313,752</u> |

Business-type Activities. Business-type activities decreased the Districts net position by \$50,999. Key elements of that caused the decrease to be smaller than the prior year are as follows:

- Sewer jetting expenses were \$13,000 lower than 2015.

The District's changes in net positions were:

| | Business -type Activities | |
|--|---------------------------|--------------------|
| | 2016 | 2015 |
| Revenues | | |
| Operations Revenues: | | |
| Charges for Services | \$ 500,652 | \$ 457,219 |
| Operating Grants and Contributions | 11,000 | 11,000 |
| Other Revenues: | | |
| Property Taxes (net of Treasurer's fees) | 54,790 | 48,288 |
| Other Taxes | 4,467 | 4,136 |
| Investment Income | 3,482 | 5,248 |
| Total Revenues | <u>574,391</u> | <u>525,891</u> |
| Expenses: | | |
| Water & Sewer Operations | 538,933 | 513,889 |
| Depreciation | 86,457 | 86,391 |
| Total Expenses | <u>625,390</u> | <u>600,280</u> |
| Increase (Decrease) in Net Position | <u>\$ (50,999)</u> | <u>\$ (74,389)</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for its business-type activities as of December 31, 2016 amounts to \$1,297,914 (net of depreciation). This investment in capital assets includes buildings, water and sanitation lines, equipment, and land. The District's capital assets by activity at December 31 were as follows:

| | Business-type Activities | |
|---------------------------------|-----------------------------|---------------------|
| | 2016 | 2015 |
| Land | \$ 19,836 | \$ 19,836 |
| Collection System | 972,724 | 972,724 |
| Plant Expansion | 1,687,858 | 1,687,858 |
| Outflow Lines | 48,497 | 48,497 |
| Furniture, Fixtures & Equipment | 150,432 | 150,432 |
| Less Accumulated Depreciation | <u>(1,581,433)</u> | <u>(1,494,976)</u> |
| Total | <u>\$ 1,297,914</u> | <u>\$ 1,384,371</u> |

There were no significant capital asset purchases during the year ended December 31, 2016.

BUDGETARY HIGHLIGHTS

The District adopts a budget annually. During the current fiscal year the District made no revisions to the adopted budget. Comparisons between and actual and budget are detailed in the supplementary information section of these statements and are briefly summarized as follows:

- The District received \$33,000 less in tap sales than budgeted.
- The District budgeted \$600,000 of special development income and \$689,545 for capital outlay. Current year capital outlay was only \$20,547 and no revenue was received during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The District budgeted tap sales of \$44,000 during 2017.
- The District budgeted \$58,500 for capital expenditures during 2017.

These factors were considered in preparing the District's budget for the 2017 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Kittredge Sanitation and Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kittredge Sanitation and Water District, PO Box 7, Kittredge, CO, 80457.

KITTREDGE SANITATION AND WATER DISTRICT

Statements of Net Position

| | December 31, | |
|--|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Assets | | |
| Current Assets | | |
| Cash and Investments - Unrestricted | \$ 524,833 | \$ 484,769 |
| Cash held by District Agent | 21,248 | 22,677 |
| Accounts Receivable | 19,267 | 17,762 |
| Property Taxes Receivable | 56,145 | 55,807 |
| Prepaid Insurance | 7,362 | - |
| Total Current Assets | <u>628,855</u> | <u>581,015</u> |
| Non-Current Assets | | |
| Restricted Assets | | |
| Cash and Investments - Restricted for Capital Projects | 419,260 | 425,844 |
| Total Restricted Assets | <u>419,260</u> | <u>425,844</u> |
| Capital Assets | | |
| Land | 19,836 | 19,836 |
| Sewage Treatment Plant and Outflow Lines | 1,736,355 | 1,736,355 |
| Collection System | 972,724 | 972,724 |
| Plant Equipment | 148,755 | 148,755 |
| Furniture & Fixtures | 1,677 | 1,677 |
| Less Accumulated Depreciation | <u>(1,581,433)</u> | <u>(1,494,976)</u> |
| Total Capital Assets | <u>1,297,914</u> | <u>1,384,371</u> |
| Total Non-Current Assets | <u>1,717,174</u> | <u>1,810,215</u> |
| Total Assets | <u>2,346,029</u> | <u>2,391,230</u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | <u>27,131</u> | <u>21,671</u> |
| Deferred Inflows of Resources | | |
| Unavailable Revenue - Property Tax | <u>56,145</u> | <u>55,807</u> |
| Net Position | | |
| Invested in Capital Assets, Net of Related Debt | 1,297,914 | 1,384,371 |
| Restricted for Capital Projects | 419,260 | 425,667 |
| Restricted for Emergencies | 16,927 | 15,469 |
| Unrestricted | <u>528,652</u> | <u>488,245</u> |
| Total Net Position | <u>\$ 2,262,753</u> | <u>\$ 2,313,752</u> |

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

KITTREDGE SANITATION AND WATER DISTRICT

Statements of Revenues, Expenses, and Changes in Fund Net Position

| | For the Year Ended December 31, | |
|--|---------------------------------|--------------|
| | 2016 | 2015 |
| Sewer Operations | | |
| Service Fees | \$ 248,026 | \$ 244,026 |
| Direct Sewer Expenses | | |
| Plant Operations | 121,886 | 136,949 |
| Utilities | 28,299 | 30,036 |
| Sludge Hauling and Processing | 17,485 | 16,256 |
| Maintenance, Repairs and Supplies | 60,070 | 63,033 |
| Depreciation | 86,457 | 86,391 |
| | 314,197 | 332,665 |
| Net Loss from Sewer Operations | (66,171) | (88,639) |
| Water Operations | | |
| Water Services and System Fees Revenue | 252,626 | 213,193 |
| Water Services and System Fees Expense | 243,535 | 204,507 |
| Net Income from Water Operations | 9,091 | 8,686 |
| Net Loss from Operations | (57,080) | (79,953) |
| General and Administrative Expenses | | |
| Accounting and Audit | 19,162 | 17,669 |
| Administrative and Billing Services | 10,735 | 10,174 |
| Directors' Fees & Payroll Taxes | 6,359 | 6,013 |
| Election Expense | 684 | - |
| Engineering & Consulting | 3,706 | 3,292 |
| Insurance | 7,539 | 8,212 |
| Legal | 11,560 | 9,166 |
| Miscellaneous | 677 | 868 |
| Office Lease | 2,400 | 2,400 |
| Office Supplies, Telephone and Other | 4,836 | 5,314 |
| Total General and Administrative Expenses | 67,658 | 63,108 |
| Loss from Operations | (124,738) | (143,061) |
| Non-Operating Revenues (Expenses) | | |
| Property Taxes | 55,632 | 49,026 |
| Specific Ownership Taxes | 4,467 | 4,136 |
| Investment Income | 3,482 | 5,248 |
| System Development Fees | 11,000 | 11,000 |
| County Treasurer's Fees | (842) | (738) |
| Total Non-Operating Revenues | 73,739 | 68,672 |
| Change in Net Position | (50,999) | (74,389) |
| Total Net Position - January 1 | 2,313,752 | 2,388,141 |
| Total Net Position - December 31 | \$ 2,262,753 | \$ 2,313,752 |

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

KITREDGE SANITATION AND WATER DISTRICT

Statements of Cash Flows

| | For the Year Ended December 31, | |
|---|---------------------------------|---------------------------|
| | 2016 | 2015 |
| Cash Flows From Operating Activities | | |
| Cash Received from Customers | \$ 255,612 | \$ 252,119 |
| Cash Paid to Suppliers | <u>(297,300)</u> | <u>(310,156)</u> |
| Net Cash Flows from Operating Activities | <u>(41,688)</u> | <u>(58,037)</u> |
| Cash Flows from Capital Financing Activities | | |
| Net System Development Fees Received | 11,000 | 11,000 |
| Purchase of Equipment | <u>-</u> | <u>(24,745)</u> |
| Net Cash Flows from Capital Financing Activities | <u>11,000</u> | <u>(13,745)</u> |
| Cash Flows from Non-Capital Financing Activities | | |
| Property Taxes | 54,790 | 48,288 |
| Specific Ownership Taxes | <u>4,467</u> | <u>4,136</u> |
| Net Cash Flows from Non-Capital Financing Activities | <u>59,257</u> | <u>52,424</u> |
| Cash Flows from Investing Activities | | |
| Investment Income | <u>3,482</u> | <u>5,248</u> |
| Net Cash Flows from Investing Activities | <u>3,482</u> | <u>5,248</u> |
| Net Cash Flows | 32,051 | (14,110) |
| Cash and Cash Equivalents - January 1 | <u>933,290</u> | <u>947,400</u> |
| Cash and Cash Equivalents - December 31 | <u><u>\$ 965,341</u></u> | <u><u>\$ 933,290</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | |
| Net Loss from Operations | \$ (124,738) | \$ (143,061) |
| Adjustments to Reconcile Net Loss To Net Cash Used by Operating Activities: | | |
| Depreciation | 86,457 | 86,391 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in Operating Receivables | (1,505) | (593) |
| (Increase) Decrease in Prepaid Insurance | (7,362) | - |
| Increase (Decrease) in Accounts Payable | <u>5,460</u> | <u>(774)</u> |
| Net Cash Used by Operating Activities | <u><u>\$ (41,688)</u></u> | <u><u>\$ (58,037)</u></u> |

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

KITTREDGE SANITATION AND WATER DISTRICT

Notes to the Financial Statements December 31, 2016 and 2015

Summary of Significant Accounting Policies

The financial statements of Kittredge Sanitation and Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in accordance with those promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the District's accounting policies are described below.

Organization

Kittredge Sanitation and Water District (District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The District's purpose is to provide water and sewer services to the citizens of the District. The District's primary revenues are property taxes, sewage treatment charges and system development fees. The District is governed by an elected Board of Directors.

The District has no employees and all operations and administrative functions are contracted.

Reporting Entity

The accompanying financial statements present the activities of the District.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Basic Financial Statements

The accounts of the District are organized into a single enterprise fund (proprietary fund type) or business-type activity. Since the District has only one fund presented in the financial statements, it is not specifically titled. However, both water and sewer are shown within this fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Budget and Budgetary Accounting

Annually the Board of Directors prepares proposed operating budgets for the fiscal year commencing the following January 1.

The operating budgets include proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to December 31, the budget is legally adopted by the Board of Directors. The District appropriates by total expenditures. All appropriations lapse at year-end per State statutes.

An annual budget resolution, appropriation resolution and mill levy resolution are adopted by the Board of Directors in accordance with the Colorado State Statutes. All funds are budgeted using a non-GAAP basis by recognizing equipment and building acquisition and debt service payments as expenditures and non-cash expenses such as depreciation are not budgeted.

The budget was not amended during the year.

KITTREDGE SANITATION AND WATER DISTRICT

Notes to the Financial Statements December 31, 2016 and 2015

Summary of Significant Accounting Policies – Continued

Cash and Cash Equivalents

It is the District's policy to consider all investments with an initial maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include property, buildings and equipment, are reported in the government-wide financial statements and in the proprietary fund type statement of net assets. It is the District's policy to capitalize acquisitions in excess of \$500 that have an estimated useful life in excess of one year. All purchased assets are recorded at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their fair value on the date received. Sewer lines contributed to the District are recorded at the developer's cost.

Repairs are expensed and replacements are capitalized at the time the expenditure is incurred or the acquisition is placed in service.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets.

Revenue Recognition - Property Taxes

Property taxes attach to the property as of January 1. Taxes are levied in December and are payable in the following year. Property taxes unpaid by October 1 are subject to lien.

Property taxes are payable in full by April 30, or in two equal installments due February 28, and June 15. The County Treasurer bills and collects property taxes for all taxing entities within the County. The property tax receipts collected by the County Treasurer each month are remitted to the District in the subsequent month.

Property tax revenues are recognized when collected by the County Treasurer each month. Property tax revenue held by the County Treasurer on December 31 is treated as revenue of the current year. Delinquent taxes of prior years are recognized as revenue when collected by the County Treasurer.

Property tax revenues are accrued and recorded as deferred inflows in the year the mill levy is adopted as the taxes are not due until the following year.

Capital Grants

Revenue, such as system development fees, that is charged to assist in the funding for the acquisition, construction or rehabilitation of capital assets is considered capital grant revenue.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

KITTREDGE SANITATION AND WATER DISTRICT

**Notes to the Financial Statements
December 31, 2016 and 2015**

Summary of Significant Accounting Policies – Continued

Restricted/Unrestricted Asset Usage

The District receives both restricted and unrestricted revenue during the year. It is the District's policy to use restricted assets first and unrestricted net assets if necessary.

Cash, Cash Equivalents, and Investments

The District follows state statutes regarding investments. This is a formally adopted policy.

The Public Deposit Protection Acts (PDPA) of the State of Colorado controls the collateralization of public funds on deposit in state and national banks and savings and loans. Under the PDPA the District is required to make deposits only in "eligible public depositories" as defined in the statute. Under this statute, an eligible public depository is required to pledge collateral with a market value in excess of the non-federally insured portion of its aggregate public deposits, but is not required to register such collateral in the name of its individual public depositors. The institution is required to maintain subsidiary records that identify public deposits secured by a pool.

The District limits its concentration of investments to those covered by the PDPA which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements.

Deposits

At December 31, 2016 the District's deposits had a carrying value \$425,085 and a bank balance of \$428,329. Of the bank balance \$397,350 was covered by federal depository insurance and the balance covered by PDPA.

Investments

At December 31, 2016 the District had investments in certificates of deposits totaling \$518,908 all of which were covered by federal depository insurance.

Restricted and Pledged Cash

The District restricts system development fees, State grants, inclusion fees and interest earned thereon to fund sewer plant expansion & major maintenance costs. A summary of the activity of this account for the years ended December 31 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Restricted and Pledged Cash - January 1, | \$ 425,844 | \$ 461,105 |
| Net System Development Fees Received | 11,000 | 11,000 |
| Investment Income | 2,963 | 4,714 |
| Capital Outlay and Maintenance | <u>(20,547)</u> | <u>(50,975)</u> |
| Restricted and Pledged Cash - December 31, | <u>\$ 419,260</u> | <u>\$ 425,844</u> |

KITTREDGE SANITATION AND WATER DISTRICT

Notes to the Financial Statements December 31, 2016 and 2015

Cash Held by District Agent

The District contracts with Evergreen Metropolitan District for its billing service. Evergreen Metropolitan District is also authorized to collect system development fees on behalf of the District. Current month collections are remitted to the District in the following month. At December 31, 2016 and 2015 Evergreen Metropolitan District had collected service revenue of \$21,248 and \$22,677, and tap fee revenue of \$0 and \$0, respectively.

Property Taxes Receivable

Property tax for the current year is calculated using the prior year assessed valuation. On the first day of the year the property tax is levied on the property. Since the property tax is calculated using prior years assessed valuation, it is included in the prior year financial statements as both a receivable and as deferred inflow of revenue.

Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omission; injuries to employees; or acts of God. The District is one of approximately 1,160 members of the Colorado Special Districts Property and Liability Pool (Pool) created by intergovernmental agreement to provide insurance coverage. The District pays premiums to the Pool for liability, property and comprehensive crime coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds that the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Contracts

Sewer Service Contract

The District has an agreement with Evergreen Metropolitan District for sewer operations, maintenance and billing services. Evergreen Metropolitan District operates and maintains the District's sewer plant, bills the District's users, collects system development fees and other charges and remits the collected funds to the District on a monthly basis.

Rental Agreement

The District rents office space for its administrative activities on a month-to-month basis. Office rent amounted to \$2,400 and \$2,400 for the years ended December 31, 2016 and 2015.

Cost Recovery Agreement

During 2001, the District entered into a cost recovery agreement with a developer. This requires the District to collect and remit to the developer \$650 per lot surcharge, on certain lots within the District that connect with the main extended by the developer, up to a maximum of \$26,000 over the ten year term of the agreement.

KITTRIDGE SANITATION AND WATER DISTRICT

Notes to the Financial Statements December 31, 2016 and 2015

Changes in Capital Assets

An analysis of the changes in fixed assets for the year ended December 31 follows:

| By Classification | Balance at December 31, 2015 | Additions | Retirements | Balance at December 31, 2016 |
|--|------------------------------------|-----------|-------------|------------------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 19,836 | \$ - | \$ - | \$ 19,836 |
| Assets being depreciated: | | | | |
| Sewage Treatment Plant and Outflow Lines | 1,736,355 | | | 1,736,355 |
| Collection System | 972,724 | | | 972,724 |
| Plant Equipment | 148,755 | | | 148,755 |
| Furniture & Fixtures | 1,677 | | | 1,677 |
| Total assets being depreciated | 2,859,511 | - | - | 2,859,511 |
| Less - Accumulated depreciation | 1,494,976 | 86,457 | | 1,581,433 |
| Net assets being depreciated | 1,364,535 | 86,457 | - | 1,278,078 |
| Total net assets | \$ 1,384,371 | \$ 86,457 | \$ - | \$ 1,297,914 |

During 2016 the District recorded depreciation expense of \$86,457.

Tax, Spending and Debt Limitations

In 1992, Colorado voters approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations that apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. This exemption is applicable to the Enterprise Revenue Note.

TABOR established 1992 as the initial base for spending and revenue limits. Thereafter spending and revenue limits can only be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of Emergency Reserves that must be at least 3% of spending (excluding bonded debt service) for 1995 and thereafter.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing taxes or spending above the limits prescribed above, increasing a mill levy, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government. Multiple-fiscal year debt requires voter approval except for bond refinancing at lower interest rates or adding employees to existing pension plans.

KITTREDGE SANITATION AND WATER DISTRICT

Notes to the Financial Statements December 31, 2016 and 2015

Tax, Spending and Debt Limitations - Continued

In May 2002, the voters of the District approved a referendum that authorized the District to collect, retain or expend all revenues and other funds received from any source regardless of the limitations imposed by TABOR. The referendum applies only to excess revenues and leaves all other provisions of TABOR unchanged. At that election the voters also approved exempting the District from the provisions of the statute that limits property tax revenue to the amount collected in the prior year plus 5.5%. Both provisions were effective January 1, 2002.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions will require judicial interpretation.

Subsequent Events

Subsequent events have been evaluated through June 23, 2017, the date the financial statements were available to be issued.

Other Supplementary Information

Kittredge Sanitation and Water District

**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2016**

| | Appropriated Budget | Actual | Variance Positive (Negative) |
|--|------------------------|------------------|------------------------------------|
| Revenues | | | |
| Sewer Service Fees | \$ 247,333 | \$ 246,566 | \$ (767) |
| Water Service and System Fees | 255,149 | 252,581 | (2,568) |
| System Development Fees (Sewer) | 44,000 | 11,000 | (33,000) |
| Property Taxes | 55,907 | 55,632 | (275) |
| Specific Ownership Taxes | 4,200 | 4,467 | 267 |
| Investment Income | 3,760 | 3,482 | (278) |
| Special Development Income | 600,000 | - | (600,000) |
| Total Revenues | 1,210,349 | 573,728 | (636,621) |
| Expenditures | | | |
| Sewer Plant Operation | 131,186 | 117,791 | 13,395 |
| Sewer Utilities | 34,000 | 28,497 | 5,503 |
| Sludge Hauling and Processing | 24,700 | 17,485 | 7,215 |
| Sewer Maintenance & Supplies | 41,500 | 39,667 | 1,833 |
| Water Services and System Fees | 246,349 | 243,535 | 2,814 |
| Accounting & Audit | 19,800 | 19,206 | 594 |
| Administrative and Billing Services | 9,300 | 9,953 | (653) |
| Directors' fees | 6,500 | 6,000 | 500 |
| Dues and Subscriptions | 2,200 | 2,075 | 125 |
| Election Expenses | 3,500 | 684 | 2,816 |
| Insurance | 8,400 | 14,901 | (6,501) |
| Legal | 8,000 | 10,488 | (2,488) |
| Office Lease | 2,400 | 2,400 | - |
| Office Supplies and Telephone | 3,800 | 2,767 | 1,033 |
| County Treasurer's Fees | 840 | 842 | (2) |
| Payroll Taxes | 500 | 459 | 41 |
| Miscellaneous | 1,500 | 674 | 826 |
| Consulting/Stream Monitoring | 3,060 | 3,706 | (646) |
| Capital Outlay | 681,300 | 20,547 | 660,753 |
| Total Expenditures | 1,228,835 | 541,677 | 687,158 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (18,486) | \$ 32,051 | \$ 50,537 |

Kittredge Sanitation and Water District

**Reconciliation of Excess Expenditures per Budget to
Changes in Net Assets per Statement of Revenues,
Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2016**

| | |
|--|---------------------------|
| Excess of Revenues over Expenditures - Budgetary Basis | \$ 32,051 |
| Amounts reported for proprietary activities in the Statements of Revenues, Expenses and Changes in Fund Net Assets is different due to: | |
| Capital expenditures are expensed for budgetary purposes and are treated as assets for proprietary activity purposes. | - |
| Accounts receivable increased during the year causing an increase in revenue for proprietary activity purposes and no increase for budgetary purposes. | 1,505 |
| Expenditures paid in the current year for the subsequent year decrease in expenses for proprietary activity purposes and no decrease for budgetary purposes. | 7,362 |
| Accounts payable increased during the year causing an increase in expenses for proprietary activity purposes and no increase for budgetary purposes. | (5,460) |
| Depreciation is expensed for proprietary activity purposes but not for budgetary purposes since depreciation uses no cash. | <u>(86,457)</u> |
| Changes in Net Position | <u><u>\$ (50,999)</u></u> |