

**North Shore Water District
Grand Lake, Colorado**

**Financial Statements
December 31, 2016**



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**North Shore Water District
Financial Report
December 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
North Shore Water District**

Report on the Financial Statements

We have audited the accompanying financial statements of the North Shore Water District (the "District"), as of and for the year ended December 31, 2016, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement.

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

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

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**INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Columbine Lake Water District**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Shore Water District as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The individual fund budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The individual fund budgetary comparison is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
June 19, 2017**

FINANCIAL STATEMENTS

**North Shore Water District
Statement of Net Position
December 31, 2016**

Assets:

Current Assets:

Cash and cash equivalents	49,544
Receivables:	
Customer	764
Property taxes	1,464
Total Current Assets	<u>51,772</u>

Non-current Assets:

Water rights	4,200
Plant and improvements	1,502,652
Less: Accumulated depreciation	(444,018)
Total Non-current Assets	<u>1,062,834</u>
Total Assets	<u>1,114,606</u>

Liabilities:

Current Liabilities:

Accounts payable	809
Unearned revenue:	
Customer	2,323
Property taxes	1,464
Accrued payroll and related liabilities	551
Loan payable - due in less than one year	29,361
Total Current Liabilities	<u>34,508</u>

Non-current Liabilities:

Loan payable - due in more than one year	42,856
Total Non-current Liabilities	<u>42,856</u>
Total Liabilities	<u>77,364</u>

Net Position:

Net investment in capital assets	990,617
Unrestricted	46,625
Total Net Position	<u>1,037,242</u>

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

North Shore Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

Operating Revenues:	
Service charges	97,173
Other income	1,135
Total Operating Revenues	<u>98,308</u>
 Operating Expenses:	
Water operations	35,974
Depreciation	25,865
Total Operating Expenses	<u>61,839</u>
Operating Income (Loss)	36,469
 Non-operating Revenues (Expenses):	
Property taxes	1,493
Interest expense	(6,483)
Total Non-operating Revenues (Expenses)	<u>(4,990)</u>
Income (Loss) Before Capital Contributions	<u>31,479</u>
 Capital Contributions:	
Contributions - tap fees	9,000
Total Capital Contributions	<u>9,000</u>
Change in Net Position	<u>40,479</u>
Net Position - Beginning of Year	<u>996,763</u>
Net Position - End of Year	<u><u>1,037,242</u></u>

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

**North Shore Water District
Statement of Cash Flows
For the Year Ended December 31, 2016**

Cash Flows From Operating Activities:	
Cash received from customers and others	98,718
Cash payments for goods and services	(29,664)
Cash payments to directors - salaries and benefits	(5,624)
Net Cash Provided (Used) by Operating Activities	<u>63,430</u>
Cash Flows From Capital and Related Financing Activities:	
Tap fees collected	9,000
Specific ownership tax	1,493
Payments on long term debt	(57,446)
Payments on interest	(6,483)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(53,436)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,994
Cash and Cash Equivalents - Beginning of Year	<u>39,550</u>
Cash and Cash Equivalents - End of Year	<u><u>49,544</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	<u>36,469</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	25,865
(Increase) decrease in accounts receivable	(1,913)
(Increase) decrease in taxes receivable	(1,464)
Increase (decrease) in accounts payable	808
Increase (decrease) in deferred revenue	3,787
Increase (decrease) in payroll liabilities	(122)
Total Adjustments	<u>26,961</u>
Net Cash Provided (Used) by Operating Activities	<u><u>63,430</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies

North Shore Water District (the "District") was formed in 1964 to provide water services within its boundaries. The operation and maintenance of the water system as well as the administrative services are contracted out to Three Lakes Water and Sanitation District. Five elected board members govern the District.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Fund Accounting

The District uses a proprietary fund-type, an enterprise fund, to account for its activities. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues and expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts and Accounting Policies

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash on hand, demand deposits, U.S. government obligations and other highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

2. Receivables

User charges constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by Statute, or certified to the Grand County Treasurer for collection on its tax rolls, as provided by Statute. Therefore, no provision for uncollectible accounts has been made in the financial statements.

3. Inventory

Inventory is determined at the lower of cost (determined on the first-in, first-out basis) or market.

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

4. Capital Assets

Capital assets, which include land, water rights, construction in progress, buildings and improvements, transmission systems, vehicles, and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed, if applicable.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Buildings and improvements, water storage tanks, infrastructure, vehicles, and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	25 - 50
Equipment and fixtures	5 - 25

5. Net Position

Net position represents the difference between assets, liabilities, and deferred inflows (outflows) of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and increased by any unspent proceeds from related borrowings. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

6. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the respective life of the respective debt using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

7. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

8. Restricted and Unrestricted Resources

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

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local Budget Law. The budget is adopted on a non-GAAP basis and is reconciled to GAAP in Section E of this report. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. Since the District is considered an enterprise under TABOR, no reserve is considered necessary.

The District believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, will require judicial interpretation.

**North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)**

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures depositors up to \$250,000 for all accounts. As of December 31, 2016, the District did not have cash balance in excess of FDIC.

At December 31, 2016, the District had the following cash and investments:

	Standard & Poors Rating	Carrying amount	Maturities less than one year
Interest bearing checking	Not rated	39,403	39,403
Investment pool	AAAm	10,141	10,141
Total cash and investments		<u>\$ 49,544</u>	<u>49,544</u>

The investment pools represent investments CSAFE which are 2a7-like pools, each have a rating of AAAM. The fair value of these pools is determined by the pools' share price. The District has no regulatory oversight for these pools.

The District follows Colorado statutes regarding its investments.

Interest Rate Risk

Colorado Revised Statutes limit the District's investment maturities to five years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values arising from changes in interest rates. As a result of the limited length of maturities, the District has limited its interest rate risk.

Credit Risk

Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets

Capital asset activity for 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Water rights	\$ 4,200	-	-	4,200
Total capital assets, not being depreciated	<u>4,200</u>	<u>-</u>	<u>-</u>	<u>4,200</u>
Capital assets, being depreciated:				
Water system	1,502,652	-	-	1,502,652
Machinery & Equipment	0	-	-	-
Total capital assets, being depreciated	<u>1,502,652</u>	<u>-</u>	<u>-</u>	<u>1,502,652</u>
Less accumulated depreciation for:				
Water system	418,153	25,865	-	444,018
Machinery & Equipment	0	-	-	-
Total accumulated depreciation	<u>418,153</u>	<u>25,865</u>	<u>-</u>	<u>444,018</u>
Total capital assets, being depreciated, net	<u>1,084,499</u>	<u>(25,865)</u>	<u>-</u>	<u>1,058,634</u>
Total capital assets, net	<u>\$ 1,088,699</u>	<u>(25,865)</u>	<u>-</u>	<u>1,062,834</u>

C. Long Term Obligations

On November 6, 2007, the District Entered into a Loan/Grant Contract (the Contract) under the Energy and Mineral Impact Assistance Program with the State of Colorado's Department of Local Affairs (DOLA). The loan is for \$439,314 and is payable annually, with a 5%, on September 1, 2009 in equal installments of \$33,930. The final payment is due on September 1, 2023. During 2016, the District made principal payments of \$30,000 in excess of the required payment.

Debt repayment requirement at December 31, 2016, were as follows:

Year	Interest	Principal	Total
2017	\$ 3,106	30,319	33,425
2018	1,564	31,835	33,399
2019	335	10,063	10,398
Total	<u>\$ 5,005</u>	<u>72,217</u>	<u>77,222</u>

North Shore Water District
Notes to the Financial Statements
December 31, 2016
(Continued)

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other special districts in the State to form the Colorado Special Districts Property and Liability Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for member special districts. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation 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 which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

B. Intergovernmental Agreements

The District entered an intergovernmental agreement with Three Lakes Water and Sanitation District (Three Lakes), whereby Three Lakes serves as the Operator of Record of the District's water system and performs all operational duties. Pursuant to the agreement, Three Lakes also provides administrative functions. During 2016, the District paid \$6,572 and \$10,428, respectively, for operational and administrative services under the agreement.

SUPPLEMENTARY INFORMATION

North Shore Water District
Schedule of Revenues, Expenditures, and Funds Available
For the Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Final Budget Variance Positive (Negative)</u>
Revenues:			
Service charges	96,000	97,173	1,173
Water tap fees	6,000	9,000	3,000
Inspection fees	-	150	150
Property tax	1,453	1,493	40
Investment income	50	113	63
Miscellaneous	100	872	772
Total Revenues	<u>103,603</u>	<u>108,801</u>	<u>5,198</u>
Expenditures:			
Water Service:			
Election expense	3,000	367	2,633
Insurance	2,000	1,980	20
Professional fees	5,400	400	5,000
Licenses and fees	600	488	112
Miscellaneous	150	114	36
Office expense	800	1,092	(292)
Repairs and maintenance	15,200	1,083	14,117
Director expense	8,139	4,820	3,319
Payroll tax expense	-	682	(682)
Telephone	2,200	1,827	373
Treasurer's fees	70	70	-
Utilities	3,570	3,849	(279)
Water testing, treatment, lease	2,000	2,202	(202)
Three Lakes operation contract	9,600	6,572	3,028
Three Lakes administration	10,432	10,428	4
Debt Service:			
Principal	48,930	57,446	(8,516)
Interest	-	6,483	(6,483)
Total Expenditures	<u>112,091</u>	<u>99,903</u>	<u>12,188</u>
Excess (Deficiency) of Revenues Over Expenditures - Budgetary Basis	(8,488)	8,898	17,386
Funds Available - Beginning of Year	<u>8,488</u>	<u>37,727</u>	<u>29,239</u>
Funds Available - End of Year	<u>-</u>	<u>46,625</u>	<u>46,625</u>

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

North Shore Water District
Reconciliation of Actual (Budgetary Basis) to Statement of
Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

Excess (Deficiency) of Revenues	
Over Expenditures - Budgetary Basis	<u>8,898</u>
Reconciling Items:	
Depreciation	(25,865)
Principal paid on debt	<u>57,446</u>
Total Reconciling Items	<u>31,581</u>
Change in Net Position per Statement of Revenues, Expenses	
and Changes in Net Position	<u><u>40,479</u></u>

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