

BACA GRANDE WATER AND SANITATION DISTRICT
(Saguache County, Colorado)

FINANCIAL STATEMENTS

with Independent Auditor's Report

DECEMBER 31, 2016



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BACA GRANDE WATER AND SANITATION DISTRICT

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Baca Grande Water and Sanitation District
Saguache County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Baca Grande Water and Sanitation District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on page 31 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 on page 31 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.

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 opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary 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 such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Darner Higginbotham & Associates, PC

Lakewood, Colorado
September 29, 2017

BASIC FINANCIAL STATEMENTS

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 708,110	\$ 229,199	\$ 937,309
Cash and cash equivalents, restricted	70,200	773,315	843,515
Accounts receivable	-	262,127	262,127
Accounts receivable - County Treasurer	7,383	2,839	10,222
Property taxes receivable	439,768	202,056	641,824
Prepaid expenses	-	2,380	2,380
Capital assets not being depreciated	-	352,780	352,780
Capital assets, net of accumulated depreciation	-	8,197,697	8,197,697
Total assets	<u>1,225,461</u>	<u>10,022,393</u>	<u>11,247,854</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred cost of bond refunding	-	196,034	196,034
Pension related deferred outflow	-	49,323	49,323
Total deferred outflows of resources	<u>-</u>	<u>245,357</u>	<u>245,357</u>
LIABILITIES			
Accounts payable	5,594	37,794	43,388
Accrued interest	-	23,265	23,265
Long-term liabilities			
Due within one year	-	131,704	131,704
Due in more than one year	-	6,352,558	6,352,558
Net pension liability	-	670,984	670,984
Total liabilities	<u>5,594</u>	<u>7,216,305</u>	<u>7,221,899</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	439,768	202,056	641,824
Pension related deferred inflow	-	104	104
Total deferred inflows of resources	<u>439,768</u>	<u>202,160</u>	<u>641,928</u>
NET POSITION			
Net investment in capital assets	-	2,601,717	2,601,717
Restricted			
Loan operating reserve requirement	54,000	269,350	323,350
Emergency reserve (TABOR)	16,200	-	16,200
Unrestricted	709,899	(21,782)	688,117
Total net position	<u>\$ 780,099</u>	<u>\$ 2,849,285</u>	<u>\$ 3,629,384</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 129,416	\$ -	\$ -	\$ -	\$ (129,416)	\$ -	\$ (129,416)
Total General government	<u>\$ 129,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(129,416)</u>	<u>-</u>	<u>(129,416)</u>
Business-type activities:							
Water and sanitation	\$ 1,472,694	\$ 966,855	\$ -	\$ 36,878		(468,961)	(468,961)
Interest on long-term debt and related costs	299,394	-	-	-		(299,394)	(299,394)
Total	<u>\$ 299,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,878</u>		<u>\$ (768,355)</u>	<u>\$ (768,355)</u>
General revenues:							
Property taxes					441,585	219,464	661,049
Specific ownership taxes					77,235	-	77,235
Net investment income					8,304	5,163	13,467
Other income					10,963	37,988	48,951
Transfers					(90,000)	90,000	-
Total general revenues					<u>448,087</u>	<u>352,615</u>	<u>800,702</u>
Change in net position					318,671	(415,740)	(97,069)
Net position - Beginning					461,428	3,265,025	3,726,453
Net position - Ending					<u>\$ 780,099</u>	<u>\$ 2,849,285</u>	<u>\$ 3,629,384</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**BACA GRANDE WATER AND SANITATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2016**

	General
ASSETS	
Cash and investments	\$ 708,110
Restricted cash and cash investments	70,200
Accounts receivable - County Treasurer	7,383
Property taxes receivable	439,768
Total assets	\$ 1,225,461
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Accounts payable	\$ 5,594
Total liabilities	5,594
 DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	439,768
TOTAL DEFERRED INFLOWS OF RESOURCES	439,768
 FUND BALANCE	
Restricted:	
Emergency reserves	16,200
Loan operating reserve requirement	54,000
Unassigned	709,899
Total fund balance	780,099
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
	\$ 1,225,461
 Net position of governmental activities	
	\$ 780,099

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
Year Ended December 31, 2016**

	General
REVENUES	
Property taxes	\$ 441,585
Specific ownership taxes	77,235
Interest income	8,304
Miscellaneous revenue	10,963
Total revenues	538,087
 EXPENDITURES	
General government:	
Audit	10,791
Accounting	30,672
County Treasurer's fees	13,485
Directors' fees	2,600
Elections	962
Legal fees	37,210
Management	33,696
Total expenditures	129,416
 EXCESS OF REVENUE OVER EXPENDITURES	 408,671
 OTHER FINANCING SOURCES (USES)	
Transfers to other funds	(90,000)
Total other financing sources	(90,000)
 NET CHANGE IN FUND BALANCE	 318,671
 FUND BALANCE - BEGINNING OF YEAR	 461,428
 FUND BALANCE - END OF YEAR	 \$ 780,099
 Change in net position of governmental activities	 \$ 318,671

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2016

	<u>Budgeted</u> <u>Amounts</u>		<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original and Final</u>	<u>Actual</u>	
REVENUES			
Property taxes	\$ 419,914	\$ 441,585	\$ 21,671
Specific ownership taxes	100,800	77,235	(23,565)
Interest income	3,480	8,304	4,824
Miscellaneous revenue	3,000	10,963	7,963
Total Revenues	<u>527,194</u>	<u>538,087</u>	<u>10,893</u>
EXPENDITURES			
General government:		-	-
Audit	10,550	10,791	(241)
Accounting	40,000	30,672	9,328
County Treasurer's fees	13,402	13,485	(83)
Directors' fees	6,500	2,600	3,900
Elections	22,000	962	21,038
Legal fees	58,000	37,210	20,790
Management	65,000	33,696	31,304
Total Expenditures	<u>215,452</u>	<u>129,416</u>	<u>86,036</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES	<u>311,742</u>	<u>408,671</u>	<u>96,929</u>
OTHER FINANCING SOURCES (USES)			
Emergency reserve	(15,820)	-	15,820
Transfers to other funds	(400,000)	(90,000)	310,000
Total other financing sources (uses)	<u>(415,820)</u>	<u>(90,000)</u>	<u>325,820</u>
NET CHANGE IN FUND BALANCE	(104,078)	318,671	422,749
FUND BALANCE - BEGINNING OF YEAR	458,871	461,428	2,557
FUND BALANCE - END OF YEAR	<u>\$ 354,793</u>	<u>\$ 780,099</u>	<u>\$ 425,306</u>

These financial statements should be read only in connection with the
accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2016

	<u>Water and Sewer Enterprise Fund</u>
ASSETS	
Cash and investments	\$ 229,199
Cash and investments - restricted	773,315
Accounts receivable, net of allowance for uncollectibles	262,127
Accounts receivable - County Treasurer	2,839
Property taxes receivable	202,056
Prepaid expenses	2,380
Capital assets not being depreciated	352,780
Capital assets, net of accumulated depreciation	<u>8,197,697</u>
Total assets	<u>10,022,393</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred cost of bond refunding	\$ 196,034
Pension related deferred outflow	<u>49,323</u>
Total deferred outflows of resources	<u>\$ 245,357</u>
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 37,794
Accrued interest payable	23,265
Non-current liabilities:	
Long-term debt:	
Due within one year	131,704
Due in more than one year	6,352,558
Net pension liability	<u>670,984</u>
Total liabilities	<u>7,216,305</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred taxes receivable	\$ 202,056
Pension related deferred inflow	<u>104</u>
Total deferred inflows of resources	<u>\$ 202,160</u>
NET POSITION	
Net investment in capital assets	2,601,717
Restricted	
Loan operating reserve requirement	269,350
Unrestricted	<u>(21,782)</u>
Total net position	<u>\$ 2,849,285</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2016

	<u>Water and Sewer Enterprise Fund</u>
OPERATING REVENUE	
Water and sewer fees	\$ 659,362
Availability of service fees	247,725
Miscellaneous revenue	59,768
Total operating revenue	<u>966,855</u>
OPERATING EXPENSES	
Depreciation	450,604
Insurance	33,321
Office expense	23,615
Operating expenses	23,218
Professional fees	22,249
Repair and maintenance	142,676
Salaries and benefits	548,300
Small tools and supplies	7,845
Testing	5,810
Utilities	93,340
Utility billing	11,479
Vehicle operations	20,834
Water costs	89,403
Total operating expenses	<u>1,472,694</u>
OPERATING INCOME (LOSS)	<u>(505,839)</u>
NONOPERATING REVENUE (EXPENSE)	
Property and specific ownership taxes	219,464
Payment in lieu of taxes	27,988
Grant income	36,278
Interest income	5,163
Sale of asset	10,000
Interest and fiscal expense	(299,394)
Total nonoperating revenue, net	<u>(501)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(506,340)</u>
CAPITAL CONTRIBUTIONS - TAP FEES	600
TRANSFERS IN	<u>90,000</u>
CHANGE IN NET POSITION	<u>(415,740)</u>
NET POSITION - BEGINNING OF YEAR	<u>3,265,025</u>
NET POSITION - END OF YEAR	<u>\$ 2,849,285</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2016

	Water and Sewer Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 977,591
Cash payments to suppliers for goods and services	(399,720)
Cash payments to employees for services	(447,283)
Net cash used in operating activities	130,588
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in	90,000
Net cash provided by noncapital financing activities	90,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Property and specific ownership taxes received	216,625
Tap fees received	600
Payment in lieu of taxes	27,988
Purchases of capital assets	(120,722)
Principal paid on debt	(123,212)
Grant income	36,278
Interest and fiscal charges paid on debt	(329,991)
Net cash used in capital and related financing activities	(292,434)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	5,163
Net cash provided by investing activities	5,163
NET DECREASE IN CASH AND CASH EQUIVALENTS	(66,683)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,069,197
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,002,514

Continued

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2016

**RECONCILIATION OF OPERATING INCOME TO CASH FLOWS
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ (505,839)
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	450,604
Effects of changes in operating assets and liabilities:	
Accounts receivable	7,897
Change in deferred	-
Prepaid expense	(827)
Accounts payable	26,507
Pension related liabilities	<u>152,246</u>
 Total adjustments	 <u>636,427</u>
Net cash used in operating activities	 <u><u>\$ 130,588</u></u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

1. DEFINITION OF REPORTING ENTITY

Baca Grande Water and Sanitation District (the "District") is a quasi-municipal political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Saguache County, Colorado. The District was established on January 21, 1972 to provide water and sewer services within and outside of its boundaries.

The District's financial statements are prepared in accordance with U.S. 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). A summary of the significant accounting policies used in the preparation of these financial statements follows.

The District has no component units for which either discrete or blended presentation is required. The inclusion or exclusion of component units is based on a determination of the elected official's financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are in substance, part of the primary government) and discretely presented component units. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing, and the primary recipient of services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-Wide and Fund Financial Statements — The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between *governmental* and *business-type* activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities are financed to a significant extent by fees and charges.

The statement of net position reports all financial and capital resources of the District. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. *Program revenues* include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

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 a liability is incurred, regardless of the timing of the related cash flow. On an accrual basis, property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The District considers property taxes as available if they are collected within 30 days after year-end. Property taxes are recognized as revenue in the fiscal period for which they are levied, providing the available criteria are met.

Those revenues susceptible to accrual are property taxes, interest revenue and charges for services. Specific ownership taxes collected and held by the county at year-end on behalf of the District are also recognized as revenue.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the accrual criteria are met. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District reports the following major governmental fund:

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

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Additionally, the District reports the following major proprietary fund:

Water and Sewer Enterprise Fund – The enterprise fund is used to account for those operations financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has one enterprise fund-the Water and Sewer Enterprise Fund. The intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services 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 for services. Operating expenses for enterprise funds include 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.

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

Pooled Cash and Investments – The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Receivables — All receivables are reported net of allowance for uncollectible accounts of \$56,827 at December 31, 2016.

Prepaid Expenses — Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Due To and From Other Funds — Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the fund financial statements, these receivables and payable are classified as "due from other funds" or "due to other funds". In the government-wide financial statements, all internal balances have been substantially eliminated.

Restricted Cash and Investments — The use of certain cash and investments of the District is restricted. These cash and investment items are classified as restricted assets on the balance sheet

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

because they are maintained in separate accounts and their use is limited by debt agreements.

Investments – Investments are stated at fair value. Fair value is the amount the District can reasonably expect to receive to sell an investment in an orderly transaction between market participants.

Amortization of Bond Issue Premium – In the government-wide financial statements and proprietary fund types in the fund financial statements, bond premiums are reported as a component of noncurrent liabilities. Bond premiums are amortized over the life of the bonds using the effective interest method. Amortization of bond premiums reduced interest expense by \$7,020 for the year ended December 31, 2016. Accumulated amortization of bond premiums totaled \$43,633 at December 31, 2016.

Cost of Bond Refunding – In the government-wide financial statements and proprietary fund types in the fund financial statements, the deferred cost on bond refunding is being amortized over the life of the refunded bonds. The amortization amount is a component unit of interest expense and the unamortized deferred cost of \$196,034 at December 31, 2016, is reflected as deferred outflows of financial resources.

Capital Assets — Capital assets, which include property, water plant, sewage treatment plant and collection systems, related improvements and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as those assets with an initial, individual cost of \$5,000 or greater and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not include as part of the capitalized value of the assets constructed.

Assets are depreciated using the straight-line method over the following estimated useful lives:

Water plant and distribution systems	20-40 years
Sewage treatment plant and collection systems	20-40 years
Equipment	5-15 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net assets.

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Compensated absences— District employees earn paid time off at the rate of 160 to 200 hours per year, based on length of service, which is to be used for vacations, medical leave or personal time off. Employees are allowed to accrue up to 80 hours of unused paid time off at the end of each calendar year. Compensated absences are recorded as current salary cost when paid.

Contributed Capital – Tap fees are generally recorded as capital contributions when received.

Long-Term Liabilities — In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity — The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted -This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

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Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Statement of Cash Flows — For purposes of the Statement of Cash Flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, government pools, and short-term investments with original maturities of three months or less from the date of acquisition, including restricted cash and cash equivalents.

Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Adoption of Accounting Pronouncement — In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The objective of Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The District adopted the provisions of Statement No. 72 during the year ended December 31, 2016. There were no restatements of reported values of the District's assets or liabilities resulting from the implementation of Statement No. 72. See Note 4 for the expanded disclosures regarding fair value measurements.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date of issuance of the financial statements.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Information — The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In the fall, the District Manager submits to the Board of Directors, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the District to obtain taxpayer comments.
3. Prior to December 15, the budget is legally approved.
4. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

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5. Formal budgetary integration is employed as a management control device during the year for the governmental and proprietary funds.
6. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The budget for the Water and Sewer Enterprise Fund is prepared on a basis of accounting other than generally accepted accounting principles, which is normal for proprietary funds. The primary differences are that bond proceeds are treated as a budget source, capital expenditures and principal payments are treated as a budget use, and accrued unpaid interest and the amortization and depreciation expense are not budgeted.
8. Budgeted amounts are as originally adopted or amended.
9. All annual appropriations lapse at the end of the year.

4. DEPOSITS AND INVESTMENTS

The District's deposits and investments consist of the following at December 31, 2016:

	Deposits	COLO- TRUST	Total
Cash and cash Equivalents	\$ 937,309	-	\$ 937,309
Restricted cash and cash equivalents	<u>308,013</u>	<u>535,502</u>	<u>843,515</u>
Total	<u>\$1,245,322</u>	<u>\$ 535,502</u>	<u>\$ 1,780,824</u>

Reconciliation of cash and cash equivalents to the government-wide financial statements at December 31, 2016:

	Governmental Activities	Business- type Activities	Total
Cash and cash equivalents	\$ 708,110	\$ 229,199	\$ 937,309
Restricted cash and cash equivalents	<u>70,200</u>	<u>773,315</u>	<u>843,515</u>
Total	<u>\$ 778,310</u>	<u>\$ 1,002,514</u>	<u>\$ 1,780,824</u>

Deposits — The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

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At December 31, 2016, the carrying amount of the District's deposits including money markets were \$1,245,322, the bank balances were \$1,244,074. Of the total bank balance, \$318,881 was covered by FDIC insurance and \$925,193 falls under the provision of the Colorado Public Deposit Protection Act which is collateralized in single institution pools.

Investments — The District is authorized by Colorado statutes to invest in the following:

- Obligations of the United States and certain U.S. government agencies' securities
- Certain international agencies' securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Certain commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposits
- Certain money market fund
- Guaranteed investment contracts

Fair Value Measurements – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest level to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level to unobservable inputs (level) as follows:

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 - Observable inputs other than quoted market prices.

Level 3 - Valuation derived from valuation techniques in which significant inputs are observable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

December 31,
2016

Investments measured at NAV:

COLOTRUST	\$ 535,502
Total investments measured at NAV	<u>\$ 535,502</u>

Fixed income securities classified in Level 2 of the fair value hierarchy are valued primarily using quoted prices in inactive markets, as well as other pricing methods using observable inputs.

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Investments Measured at NAV:

Colorado Government Liquid Asset Trust (COLOTRUST) is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes by state statutes. A twelve member Board of Trustees, elected by the fund participants, is responsible for overseeing the management of COLOTRUST, including establishing operating standards and policies. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Designated custodial banks provide safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. All securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes. COLOTRUST reports all investments as level 2 investments while the District's investment in COLOTRUST is reported at NAV. The separate audited financial statements of COLOTRUST are available on their website at www.colotrust.com. The District has no unfunded commitments or redemption restrictions on their investments in COLOTRUST.

Investments with maturities of less than 90 days are classified as cash and cash equivalents on the financial statements.

The District's investments are subject to interest rate risk and credit risk as described below:

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Credit Risk. State law limits investments to those described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2016 the District's COLOTRUST investment is rated AAAM by Standard & Poor's.

Restricted cash and investments

As of December 31, 2016, unspent bond proceeds were restricted for the costs to improve various components of the water and sewer systems of \$503,965.

In accordance with the terms of the CWRPDA Loans (see Note 5) the District is required to maintain an operating reserve equal to three months of operation and maintenance expenses, excluding depreciation of the water and sewer systems, as set forth in the annual budget for the current fiscal year. As of December 31, 2016, the required operating reserve was \$323,350, which met the requirement of the loan covenants.

The District restricted \$16,200 in compliance with State requirements for emergency reserves (Note 10).

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance at December 31, 2015	Additions	Disposals/ Retirements	Balance at December 31, 2016
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 52,823	\$ -	\$ -	\$ 52,823
Construction in process	179,185	120,772	-	299,957
Total capital assets, not being depreciated	232,008	120,772	-	352,780
Capital assets, being depreciated:				
Water plant and distribution system	8,633,108	-	-	8,633,108
Sewer plant and collection system	8,185,108	-	-	8,185,108
Machinery and equipment	277,967	-	-	277,967
Total capital assets being depreciated	17,096,183	-	-	17,096,183
Less accumulated depreciation for:				
Water plant and distribution system	4,166,740	222,351	-	4,389,091
Sewer plant and collection system	4,069,704	211,323	-	4,281,027
Machinery and equipment	211,438	16,930	-	228,368
Total accumulated depreciation	8,447,882	450,604	-	8,898,486
Total capital assets being depreciated, net	8,648,301	(450,604)	-	8,197,697
Total capital assets, net	\$ 8,880,309	\$ (329,832)	\$ -	\$ 8,550,477

Depreciation expense of \$450,604 for the year ended December 31, 2016 was charged to the enterprise fund operations.

6. LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2016:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Amounts Due Within One Year
Business-Type Activities:					
General Obligation Bonds:					
2010 Bonds	\$ 5,355,000	\$ -	\$ 50,000	\$ 5,305,000	\$ 50,000
Bond Issuance Premium	136,871	-	7,020	129,851	7,020
Total Bonds Payable	\$ 5,491,871	\$ -	\$ 57,020	\$ 5,434,851	\$ 57,020
CWRPDA Loan:					
2009 Loan	\$ 1,122,623	\$ -	\$ 73,212	\$ 1,049,411	\$ 74,684
	\$ 6,614,494	\$ -	\$ 130,232	\$ 6,484,262	\$ 131,704

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Bonds payable

\$5,405,000 General Obligation Refunding and Improvement Bonds, Series 2010, dated October 26, 2010

The District issued \$5,405,000 in general obligation bonds for the purpose of refunding certain outstanding financial obligations and funding certain capital improvements to various components of the water and sewer systems. Proceeds from the sale of the bonds were also used to provide funds to pay future bond interest and to pay the costs of issuance of the bonds.

The bonds consist of serial bonds issued in the amount of \$400,000 due annually on each December 1 through 2020 and term bonds issued in the amounts of \$600,000, \$1,000,000 and \$3,405,000 due December 1, 2025, 2030 and 2040, respectively. Such term bonds are subject to mandatory redemption. The bonds bear interest at 2.75% to 4.77%, payable semiannually on each June 1 and December 1, commencing June 1, 2011.

The term bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2020, and on any date thereafter, without redemption premium. Serial bonds are not callable prior to maturity.

The bonds and interest are insured as to repayment by the District.

Loans payable

\$1,483,750 Loan Agreement, Colorado Water Resources and Power Development Authority (CWRPDA), dated August 19, 2009

On August 19, 2009, the District entered into a loan agreement with CWRPDA for a maximum principal amount of \$1,483,750. The loan proceeds were used for distribution system improvements, water main and meter replacements, and well improvements.

Payments of principal and interest are made semi-annually on June 1 and December 1, beginning December 1, 2010 through June 1, 2029. The loan bears interest at the rate of 2.0% per annum. The District has the option to repay the loan, in whole or in part, without penalty upon prior written notice of not less than 30 days to CWRPDA.

The 2009 loan agreement contains a restrictive covenant which requires the District to maintain a three-month operating reserve (see Note 4). At December 31, 2016, the District restricted \$323,350 of fund balance in compliance with this covenant.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Debt Maturities

Debt maturities for the next five years and to maturity are as follows:

<u>Year</u>	<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 124,684	\$ 280,992
2018	126,185	277,990
2019	177,717	274,834
2020	179,278	269,772
2021	190,872	264,678
2022 - 2026	1,059,407	1,210,847
2027 - 2031	1,341,268	968,984
2032 - 2036	1,500,000	647,750
2037 - 2040	1,655,000	215,000
Total	<u>\$ 6,354,411</u>	<u>\$ 4,410,847</u>

Refunding

On October 26, 2010, the District refunded and paid the following financial obligation by the issuance of \$3,995,000 General Obligation Refunding and Improvement Bonds, Series 2010 (refunding component of the \$5,405,000 issue) with an average interest rate of 4.93%.

	<u>Dated</u>	<u>Principal Refunded</u>	<u>Average Interest Rate</u>
General Obligation Bonds, Series 2009	May 21 2009	\$ 3,105,000	7.86%
2001 CWRPDA Loan	December 20, 2001	544,434	4.00%
2007 Wells Fargo Capital Lease	January 19, 2007	174,717	4.20%
Total		<u>\$ 3,824,151</u>	

The District refunded the financial obligations to reduce its total debt service payments over the next 30 years by almost \$243,058 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$772,925.

In the government-wide statements, the District incurred a cost on bond refunding in the amount of \$275,881, which has been deferred and is being amortized over the life of the refunded 2009 bonds. At December 31, 2016, the remaining amount to be deferred was \$196,034.

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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Debt authorization

On November 4, 2008 and May 4, 2010, a majority of qualified electors of the District authorized the issuance of indebtedness in amounts not to exceed \$6,000,000 and \$6,000,000, respectively, at interest rates not to exceed 8.5% per annum. The 2010 authorization was for the purpose of refunding previously issued bonds. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes.

<u>Purpose</u>	<u>Authorized in 2008 and 2010</u>	<u>Used by 2009 Bonds and Note</u>	<u>Used by 2010 Bonds</u>	<u>Authorized But Unissued</u>
Water Supply	\$ 3,000,000	\$ 2,039,234	\$ 960,000	\$ 766
Sanitary Sewer	3,000,000	2,549,516	450,000	484
Refunding	6,000,000	-	3,995,000	2,005,000
Total	<u>\$ 12,000,000</u>	<u>\$ 4,588,750</u>	<u>\$ 5,405,000</u>	<u>\$ 2,006,250</u>

7. NET POSITION

The District has net position consisting of three components: net investment in capital assets; restricted; and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, loans, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2016, the District had net investment in capital assets as follows:

Net investment in capital assets:	
Capital assets, not being depreciated	\$ 352,780
Capital assets, net	8,197,697
Long-term liabilities due within one year	(131,704)
Long-term liabilities due in more than one year	(6,352,558)
Unspent bond proceeds	<u>535,502</u>
 Total net investment in capital assets	 <u>\$ 2,601,717</u>

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, net grantors, contributors, or laws or regulations of other governments or imposed by law through the constitutional provisions or enabling legislation. The purposes for the restrictions of net position are described in Note 4. As of December 31, 2016, the District had restricted net position as follows:

Restricted:

Loan operating reserve requirement	\$ 323,350
Emergency reserve (TABOR)	<u>16,200</u>
Total restricted net position	<u>\$ 339,550</u>

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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As of December 31, 2016, the District had unrestricted net position of \$688,117.

8. DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan description. Eligible employees of the District are provided with pensions through the LGDTF Plan-a cost sharing multiple employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes ("CRS"), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. PERA provides retirement, disability and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement and age at retirement. Retirement eligibility is specified in tables set forth in C.R.S ss 24-51-602, 604, 1713 and 1714.

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

*Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

*The value of the retiring employee's member contribution account plus 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

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

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

Contributions. Eligible employees and the District are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S.ss 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

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	Rate
Employer Contribution Rate ¹	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. ss 24-51-208(1)(f) ¹	(1.02)%
Amount Apportioned to the LGDTF ¹	8.98%
Amortization Equalization Disbursement (AED) as specified in C.R.S. ss 24-51-411 ¹	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. ss 24-51-411 ¹	1.50%
Total Employer Contribution Rate to the LGDTF ¹	12.68%

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

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by LGDTF from the District were \$38,196 for the year ended December 31, 2016.

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

At December 31, 2016, the District reported a liability of \$670,984 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2015 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2015, the District's proportion was .04969 percent, which was an decrease of .0081 percent from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the District recognized additional PERA pension expense of \$152,246. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$11,942	-
Changes in assumptions or other inputs	\$47,600	\$1,940
Net difference between projected and actual earnings on pension plan investments	\$28,131	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	(\$76,546)	(\$2,044)
Contributions subsequent to the measurement date	\$38,196	-
Total	\$49,323	(\$104)

\$38,196 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,

2017 \$4,365

2018 \$4,365

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Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 - 10.85 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve(AIR)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year and Females set back 2 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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The LGDTF's long-term expected rate of return on pension 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.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 18, 2016, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity -- Developed	18.55%	5.20%
Non U.S. Equity -- Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income -- Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will drop 0.50 percent every year until they are zero. Based on those assumptions, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$989,336	\$670,984	\$407,355

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

9. INTERFUND AND OPERATING TRANSFERS

The transfer of \$90,000 from the General Fund to the Enterprise Fund was for the purpose of assisting with operating costs of the Enterprise Fund

10. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance.

The District was a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by an intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members. Settlements have not exceeded coverage during the past three fiscal years.

11. AMENDMENT TO COLORADO CONSTITUTION

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

BACA GRANDE WATER AND SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Enterprises, defined as government-owned businesses authorize 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. The District's Board of Directors has adopted a resolution establishing an enterprise to operate its water and sanitation activities. The District's management believes its water and sanitation operations qualify for this exclusion.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The District believes, after consultation with legal counsel, it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

On November 3, 1998, the voters approved a ballot which stated that the District is authorized to collect, retain and expend all revenues including grants and other funds collected during 1998 and each subsequent year from any source, notwithstanding the limitations of Article X, Section 20 of the Colorado Constitution, effective January 1, 1998, provided, however that no property tax mill levy be increased at any time nor shall any new tax be imposed without prior approval of the voters. On November 4, 2008, the District electors approved a ballot question regarding a tax increase to pay for District operations, maintenance and other expenses.

REQUIRED SUPPLEMENTAL INFORMATION

**BACA GRANDE WATER AND SANITATION DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the Net Pension Liability (Asset)	0.0496972510%	0.0578749035%	0.0534154517%
District's proportionate share of the Net Pension Liability (Asset)	\$ 670,984	\$ 518,738	\$ 439,567
District's covered-employee payroll	\$ 301,229	\$ 317,241	\$ 281,377
District's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered-employee payroll	222.75%	163.52%	156.22%
Plan fiduciary net position as a percentage of the total pension liability	73.6%	80.7%	77.7%

**BACA GRANDE WATER AND SANITATION DISTRICT
SCHEDULE OF THE DISTRICT PENSION CONTRIBUTIONS**

Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
DISTRICT CONTRIBUTIONS			
Statutorily Required Contribution	\$ 38,196	\$ 40,212	\$ 36,135
Contributions in Relation to the Statutorily Required Contribution	<u>\$ 38,196</u>	<u>\$ 40,212</u>	<u>\$ 36,135</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 301,229	\$ 317,241	\$ 281,377
Contributions as a Percentage of Covered-Employee Payroll	12.7%	12.7%	12.8%

This schedule will report ten years of data when it is available.

SUPPLEMENTAL INFORMATION

BACA GRANDE WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
NET POSITION (NON-GAAP BUDGETARY BASIS)
WATER AND SEWER ENTERPRISE FUND
For the Year Ended December 31, 2016

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual	
REVENUES			
Water and sewer fees	\$ 598,081	\$ 659,362	\$ 61,281
Availability of service fees	194,050	247,725	53,675
Property and specific ownership taxes	212,133	219,464	7,331
Tap fees	917	600	(317)
Payments in lieu of taxes	26,295	27,988	1,693
Grant income	-	36,278	36,278
Interest income	1,500	5,163	3,663
Miscellaneous income	29,580	59,768	30,188
Transfer from other funds	400,000	90,000	(310,000)
Total Revenues	<u>1,462,556</u>	<u>1,346,348</u>	<u>(116,208)</u>
EXPENDITURES			
Operations:			
Insurance	40,000	33,321	6,679
Office expense	34,780	23,615	11,165
Operating expenses	18,563	23,218	(4,655)
Professional fees	41,000	22,249	18,751
Repair and maintenance	236,772	142,676	94,096
Salaries and benefits	416,848	396,054	20,794
Small tools and supplies	6,500	7,845	(1,345)
Testing	8,000	5,810	2,190
Utilities	118,524	93,340	25,184
Utility billing	12,000	11,479	521
Vehicle operations	32,000	20,834	11,166
Water costs	112,364	89,403	22,961
Total Operations Expenditures	<u>1,077,351</u>	<u>869,844</u>	<u>207,507</u>
Debt service:			
Principal	123,212	123,212	-
Interest	283,963	293,743	(9,780)
Trustee, fiscal and paying agent fees	47,937	5,651	42,286
Capital outlay	345,458	120,772	224,686
Total Expenditures	<u>1,877,921</u>	<u>1,413,222</u>	<u>464,699</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(415,365)</u>	<u>(66,874)</u>	<u>348,491</u>
OTHER FINANCING SOURCES (USES)			
Sale of asset	-	10,000	10,000
Total other financing sources	<u>-</u>	<u>10,000</u>	<u>10,000</u>
EXCESS OF REVENUE OVER (UNDER)EXPENSES	<u>(415,365)</u>	<u>(56,874)</u>	<u>358,491</u>
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>1,084,034</u>	<u>1,668,436</u>	<u>584,402</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 668,669</u>	<u>\$ 1,611,562</u>	<u>\$ 942,893</u>

**BACA GRANDE WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - ENTERPRISE FUND
Year Ended December 31, 2016**

Revenue (budgetary basis)	<u>\$</u>	1,346,348
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position		<u>1,346,348</u>
Expenditures (budgetary basis)		1,413,222
Expenditures included in statement of revenues, expenses and changes in net position, but not included with expenditures on a budgetary basis:		
Depreciation		450,604
Expenditures included under budgetary basis, but not included in statement of revenues, expenses and changes in net position		
Capital outlay - water system improvements and water rights		(120,772)
Debt paid, net of costs of issuance		(123,212)
Pension liability		<u>152,246</u>
Operating and non-operating expenses per statement of revenues, expenses and changes in net position		<u>1,772,088</u>
Sale of Asset		<u>10,000</u>
Change in net position per statement of revenues, expenses and changes in net position	<u>\$</u>	<u>(415,740)</u>

BACA GRANDE WATER AND SANITATION DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016

Year Ended December 31,	\$5,405,000 General Obligation Bonds, Series 2010			\$1,483,750 Colorado Water Resources and Power Development Authority Loan		
	Principal Due on December 1 Interest Rate of 2.75% to 4.77%			Principal and Interest Interest Rate of 2.00%		
	Payable on June 1 and December 1			Due June 1 and December 1		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 50,000	\$ 260,375	\$ 310,375	\$ 74,684	\$ 20,617	\$ 95,301
2018	50,000	258,875	308,875	76,185	19,115	95,300
2019	100,000	257,250	357,250	77,717	17,584	95,301
2020	100,000	253,750	353,750	79,278	16,022	95,300
2021	110,000	250,250	360,250	80,872	14,428	95,300
2022	115,000	244,750	359,750	82,498	12,803	95,301
2023	120,000	239,000	359,000	84,156	11,145	95,301
2024	125,000	233,000	358,000	85,847	9,453	95,300
2025	130,000	226,750	356,750	87,573	7,728	95,301
2026	140,000	220,250	360,250	89,333	5,968	95,301
2027	195,000	213,250	408,250	91,129	4,172	95,301
2028	210,000	203,500	413,500	92,960	2,340	95,300
2029	220,000	193,000	413,000	47,179	472	47,651
2030	235,000	182,000	417,000	-	-	-
2031	250,000	170,250	420,250	-	-	-
2032	265,000	157,750	422,750	-	-	-
2033	280,000	144,500	424,500	-	-	-
2034	300,000	130,500	430,500	-	-	-
2035	320,000	115,500	435,500	-	-	-
2036	335,000	99,500	434,500	-	-	-
2037	355,000	82,750	437,750	-	-	-
2038	410,000	65,000	475,000	-	-	-
2039	435,000	44,500	479,500	-	-	-
2040	455,000	22,750	477,750	-	-	-
	<u>\$ 5,305,000</u>	<u>\$ 4,269,000</u>	<u>\$ 9,574,000</u>	<u>\$ 1,049,411</u>	<u>\$ 141,847</u>	<u>\$ 1,191,258</u>

SUPPLEMENTAL INFORMATION

Series 2010 Bonds are subject to optional redemption on December 1, 2020 without redemption premium.

(continued)

BACA GRANDE WATER AND SANITATION DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016
(continued)

Year Ended December 31,	Total		
	Principal	Interest	Total
2017	\$ 124,684	\$ 280,992	\$ 405,676
2018	126,185	277,990	404,175
2019	177,717	274,834	452,551
2020	179,278	269,772	449,050
2021	190,872	264,678	455,550
2022	197,498	257,553	455,051
2023	204,156	250,145	454,301
2024	210,847	242,453	453,300
2025	217,573	234,478	452,051
2026	229,333	226,218	455,551
2027	286,129	217,422	503,551
2028	302,960	205,840	508,800
2029	267,179	193,472	460,651
2030	235,000	182,000	417,000
2031	250,000	170,250	420,250
2032	265,000	157,750	422,750
2033	280,000	144,500	424,500
2034	300,000	130,500	430,500
2035	320,000	115,500	435,500
2036	335,000	99,500	434,500
2037	355,000	82,750	437,750
2038	410,000	65,000	475,000
2039	435,000	44,500	479,500
2040	455,000	22,750	477,750
	<u>\$ 6,354,411</u>	<u>\$ 4,410,847</u>	<u>\$ 10,765,258</u>