

**HOOVER HILL WATER AND
SANITATION DISTRICT**

BASIC FINANCIAL STATEMENTS

December 31, 2016



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JOHN CUTLER & ASSOCIATES

Board of Directors
Hoover Hill Water and Sanitation District
Boulder, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hoover Hill Water and Sanitation District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 business-type activities and each major fund of the Hoover Hill Water and Sanitation District as of and for the year ended, 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

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hoover Hill Water and Sanitation District' basic financial statements. The individual fund financial statement listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statement is fairly stated in all material respects in relation to the financial statements as a whole.

John Luttrell & Associates, LLC

July 25, 2017

HOOVER HILL WATER & SANITATION DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Hoover Hill Water and Sanitation District's (the District) annual financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2016. Please read it in conjunction with the financial statements.

1. Financial Highlights

The District's operating income increased by \$25,810 from 2015 to 2016 due to the increase of water and sanitation fees to the customers. The District passed only a portion of the City of Boulder's increase in charges for services along to the District's customers. However, the District showed an Operating Loss of \$13,838 due to the increase in the City of Boulder charges for water and sanitation services.

The cost of water purchases increased by \$21,000 and sanitation charges by \$15,000; for a total increase of \$36,000. Although the increase in rates did not offset the increase by the City of Boulder for purchases of services, the District did show a profit of \$28,00 in 2016. Also, contributing to the increase in operating expenses were several main line breaks that required repairs for a total of \$14,000 in 2016.

General and Administrative expenses decreased by \$10,000 from 2015 to 2016. The District paid the balance of \$8,500 for the upgrade to the meter reading equipment in 2016. This was the only capital expenditure that has been made in several years.

The District's net position increased by \$28,000 from 2015 to 2016; bringing the net position to \$973,890.

The District is in very good financial health and the bond debt will be paid off in 2017.

HHWSD has enough in unrestricted funds to maintain operations for over one year. However, the District has aging infrastructure, that in some instances has exceeded its life expectancy and will need capital replacement.

2. Overview of the Financial Statements

The annual report consists of three parts:

- Management's Discussion and Analysis
- Financial Statements
- Supplementary Information

3. Required Financial Statements

The financial statement of net position provides information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

Statement of Net Position

The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position

This statement measures the results of the District's operations over the past year and may be used to determine profitability, credit worthiness, and whether the District has successfully recovered all its costs through its user fees, taxes and other charges.

Statement of Cash Flows

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and the net changes in cash resulting from operations, non-capital financing, capital related financing, and investing activities. It also provides answers to such questions as where did the cash come from, how was cash used, and what was the change in cash balance during the reporting period.

4. Financial Analysis Of The District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that can help answer that question. These two statements report the net position of the District and the related change in these assets. The District's net position (the difference between assets and liabilities) is one way to measure financial health or financial position. Over time, increases in the District's net position, is one indicator that the District's financial health is improving. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, or changed governmental legislation.

5. Net Position

As part of our analysis, we provide a summary of the District's statement of net position:

Condensed Statement of Net Position

	2016	2015	2016 - 2015 Change	
			\$	%
Current & Other Assets	\$444,583	\$ 416,382	\$28,201	6.8%
Capital Assets	640,724	663,169	-22,445	-3.4%
Total Assets	\$1,085,307	\$1,079,551	\$5,756	.5%
Current Liabilities	\$21,803	44,320	-\$22,517	-50.8%
Noncurrent Liabilities	23,608	23,608	0	0%
Total Liabilities	45,411	67,928	-\$22,517	-33.2%
Deferred Inflow of Resources	66,006	66,084	-78	0%
Net Position:				
Invested in capital assets net of related debt	615,818	613,355	\$2,463	.4%
Restricted	24,906	24,906	0	0%
Emergencies	1,000	1,000	0	0%
Unrestricted	332,168	306,278	\$25,890	8.4%
Total Net Position	\$973,890	\$945,539	\$28,351	3.0%
Total Liabilities, Deferred Inflows, & Net Position	\$1,085,307	\$ 1,079,551	\$5,756	.5%

Hoover Hill Water and Sanitation District showed an increase in Current Assets-bank accounts of approximately \$28,000 from 2015 to 2016. Fixed Assets-Capital decreased due to depreciation. The District rarely has Accounts Receivable of over 90 days. The District's assets are almost fully depreciated and will need to be replaced in the future. The restricted amount will be gone as of July 2017 when the debt is paid off.

While the statement of net position shows the net position, the statement of revenue, expenses and changes in net position answers as to the nature and sources of these changes.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2016 - 2015 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$ 310,655	\$ 284,845	\$25,810	9.1%
Non-Operating Revenues	69,651	58,689	10,962	18.7%
Total Revenues	\$380,306	343,534	\$36,772	10.7%
Expenses				
Depreciation	22,445	24,000	-1,555	-6.5%
Other Operating Expense	262,460	211,093	51,367	24.3%
Non-Operating Expense	12,109	3,209	8,900	277.3%
G & A Expenses	54,941	65,105	-10,165	-15.6%
Total Expenses	351,955	303,407	48,547	16.0%
Change in Net Position	\$28,352	\$40,127	-11,774	-29.3%
Beginning Net Position	945,539	905,412	40,127	4.4%
Ending Net Position	\$973,890	\$945,539	\$28,352	3.0%

HHWSD purchases water and sanitation services from the City of Boulder. For this reason, when the City of Boulder increases its water and sanitation fees, Hoover Hill must also raise its rates to the customers of the District.

6. Budgetary Highlights

As required by state law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado.

7. Capital Assets and Debt Administration

Capital Assets

	<u>2016</u>	<u>2015</u>	<u>2016 - 2015 Change</u>	
			<u>\$</u>	<u>%</u>
Water & Sanitation System	\$ 1,668,665	\$ 1,668,665	\$ -	0.00%
Less: Accumulated Depreciation	1,027,941	1,005,496	\$22,445	2.2%
Net Property, Plant, & Equipment	\$ 640,724	\$ 663,169	-\$22,445	-3.4%

There are several water lines within the District that have exceeded their life expectancy of 40 years and must be replaced in the future. The District intends to continue funding reserves for capital improvements.

8. Long-Term Debt

The District has General Obligation Debt that will be paid off in July of 2017. The remaining balance as of year-end 2016 was \$23,608.

9. Economic Factors And New Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2017 budget, including user fees and charges. The following table presents the changes in the District's budget from 2016 to 2017.

2017 vs. 2016 Budget

	<u>2017</u>	<u>2016</u>	<u>2017 – 2016 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$345,446	\$ 305,257	40,189	13.2%
Non-Operating Revenues	69,416	69,331	85	.1%
Total Revenues	414,862	374,588	40,274	10.8%
Expenses				
Operating Expense	275,730	239,256	36,474	15.2%
G & A Expenses	78,840	79,585	-745	-.9%
Capital Outlays	0	17,500	-17,500	
Non-Operating Expense	26,806	38,247	-11,441	-29.9%
Total Expenses	\$381,376	374,588	\$6,788	1.8%
Change in Net Position	\$33,486	\$0	\$33,486	
Beginning Net Position	\$973,890	945,539	\$28,351	3.0%
Ending Net Position	\$1,007,376	\$ 973,890	33,486	3.4%

(Actual Beginning and Ending positions used for 2016)

The 2017 Budget for water and sanitation income increased. This was because the District increased the rates to its customers due to the City of Boulder raising its charges to the District. The assessed value of the properties increased only slightly, thus a minor effect on property tax income. Operating Expenses were projected to be higher in 2017 due to another increase by the City of Boulder for the purchase of water and sanitation services. G&A Expenses in 2017 included charges of \$15,000 for Engineering services to help develop a Capital Improvement Plan, but a decrease in software billing monthly maintenance fees. Non-operating expenses include TABOR 3% emergency reserve and bond principal and interest.

BASIC FINANCIAL STATEMENTS

HOOVER HILL WATER AND SANITATION DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 Year Ended December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Investments	\$ 322,608	\$ 298,633
Restricted Cash	24,906	24,906
Prepaid Expense	2,589	-
Property Taxes Receivable	66,006	66,085
Accounts Receivable	28,474	26,758
Total Current Assets	<u>444,583</u>	<u>416,382</u>
 Noncurrent Assets		
Capital Assets, Net of Accumulated Depreciation	<u>640,724</u>	<u>663,169</u>
 TOTAL ASSETS	 <u><u>\$ 1,085,307</u></u>	 <u><u>\$ 1,079,551</u></u>
 LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 20,505	\$ 21,723
Accrued Interest	1,298	220
Loans Payable, Current Portion	23,608	22,377
Total Current Liabilities	<u>45,411</u>	<u>44,320</u>
 Noncurrent Liabilities		
Loans Payable	-	23,608
Total Current Liabilities	<u>-</u>	<u>23,608</u>
 TOTAL LIABILITIES	 <u>45,411</u>	 <u>67,928</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax Revenue	<u>66,006</u>	<u>66,084</u>
 NET POSITION		
Net Investment in Capital Assets	642,022	592,278
Debt Service	24,906	24,906
Emergencies	11,500	1,000
Unrestricted	<u>295,462</u>	<u>327,355</u>
 TOTAL NET POSITION	 <u>973,890</u>	 <u>945,539</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	 <u><u>\$ 1,085,307</u></u>	 <u><u>\$ 1,079,551</u></u>

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

HOOVER HILL WATER AND SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE		
User Fees and Surcharges	\$ 310,655	\$ 285,588
Miscellaneous Income	-	(743)
	<u>310,655</u>	<u>284,845</u>
OPERATING EXPENSES		
General and Administrative	54,941	65,105
Operating	262,460	211,093
Depreciation	22,445	24,000
	<u>339,846</u>	<u>300,198</u>
OPERATING LOSS	<u>(29,191)</u>	<u>(15,353)</u>
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	65,960	54,995
Specific Ownership Taxes	3,170	3,104
Transfer Fee Payment	-	(625)
Capital Expenditures	(8,500)	-
Storage Unit	-	(290)
Interest Income	447	590
Other	74	(73)
Interest Expense	(3,609)	(2,221)
	<u>57,542</u>	<u>55,480</u>
NET INCOME	28,351	40,127
NET POSITION, Beginning	<u>945,539</u>	<u>905,412</u>
NET POSITION, Ending	<u>\$ 973,890</u>	<u>\$ 945,539</u>

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

HOOVER HILL WATER AND SANITATION DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

Year Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from User Fees and Surcharges	\$ 310,655	\$ 284,845
Cash Paid for Goods and Services	(322,920)	(273,168)
Cash Paid to Employees	-	(2,060)
	<u>(12,265)</u>	<u>9,617</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	65,960	54,995
Specific Ownership Taxes	3,170	3,104
	<u>69,130</u>	<u>58,099</u>
Net Cash Provided by Capital and Related Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan Payments	(22,377)	(21,211)
Transfer Fee Payment	-	(625)
Capital Expenditures	(8,500)	(8,500)
Storage Unit	-	(290)
Interest Income	447	590
Other	74	(73)
Interest Payments	(2,531)	(3,695)
	<u>(32,887)</u>	<u>(33,804)</u>
Net Cash Used by Capital and Related Financing Activities		
Net Increase in Cash and Cash Equivalents	23,978	33,912
CASH AND CASH EQUIVALENTS, Beginning	<u>323,539</u>	<u>289,627</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 347,517</u>	<u>\$ 323,539</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (29,191)	\$ (15,353)
Net Cash Provided by Operating Activities		
Depreciation and Amortization	22,445	24,000
Changes in Assets and Liabilities		
Accounts Receivable	(1,716)	(5,266)
Prepaid Expense	(2,589)	-
Accounts Payable	(1,214)	6,236
Total Adjustments	<u>16,926</u>	<u>24,970</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,265)</u>	<u>\$ 9,617</u>

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

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hoover Hill Water and Sanitation District (the “District”) is a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District Act. The District was established for the purpose of providing water and sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

The District is operated and accounted for as an enterprise fund and the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District meets the criteria to be treated as a joint venture. The more significant of the District’s policies are described below.

Reporting Entity

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District’s fund is classified as an enterprise fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

HOOVER HILL WATER AND
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for 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 nonoperating revenues and expenses.

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

The District reports all activity in one enterprise fund which is a proprietary fund type. This fund is considered a major fund.

Assets, Liabilities and Fund Balance/Net Position

Cash and Cash Equivalents – Cash and cash equivalents include amounts in deposit accounts and short-term investments with an original maturity of three months or less.

Receivables – Receivables consist of amounts owed to the District by its utility customers. It is the District's policy to file liens on any past due user fees, therefore amounts are considered to be collectible and no allowance for bad debt has been recorded.

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Capital Assets – Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation of capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water and Wastewater Systems	20 – 40 years
Office and Maintenance Equipment	5 years

Long-Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Net Position – The business-type fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position are liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are recorded at December 31. As the tax is collected in the succeeding year, the deferred inflow is recognized as revenue and the receivable is reduced.

Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage, to, or destruction of assets; errors or omissions; injuries to employees, or natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (“Pool”) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials’ liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials’ 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 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.

HOOVER HILL WATER AND
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is adopted for the enterprise fund as a management control device, but is not legally required. The budgetary information presented in the financial statements was approved by the Board of Directors.

NOTE 3: DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of December 31, 2016 follows:

Cash Deposits	\$ 46,717
Investments	<u>300,797</u>
Total	<u>\$ 347,514</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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. At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

HOOVER HILL WATER AND
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$46,717. The bank balances with the financial institutions were \$64,129. All of these balances were covered by federal depository insurance.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest, which include:

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States and U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

The District's policy is to hold investments until maturity.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that in the event of a failure of a counter party, the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a specific policy for custodial credit risk.

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Fair Value

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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District had invested \$200,064 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned 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 the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

The District invested \$100,733 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.

Interest Rate Risk

Colorado Revised Statutes limit 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 value losses arising from increasing interest rates.

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Restricted Cash

The amount shown as restricted cash and cash equivalents has been restricted by the District's debt indenture to be used for future debt service, which is in the form of bank deposits.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2016, is summarized below.

	<u>Balances</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/16</u>
Business-Type Activities				
Capital Assets, depreciated,				
Infrastructure – Water System	\$ 1,380,493	\$ -	\$ -	\$ 1,380,493
Infrastructure – Wastewater System	<u>288,172</u>	<u>-</u>	<u>-</u>	<u>288,172</u>
Total Capital Assets, depreciated	<u>1,668,665</u>	<u>-</u>	<u>-</u>	<u>1,668,665</u>
Less: Accumulated Depreciation				
Infrastructure – Water System	722,313	21,991	-	744,304
Infrastructure – Wastewater System	<u>283,185</u>	<u>454</u>	<u>-</u>	<u>283,639</u>
Total Accumulated Depreciation	<u>1,005,496</u>	<u>22,445</u>	<u>-</u>	<u>1,027,941</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 663,169</u>	<u>\$ 22,445</u>	<u>\$ -</u>	<u>\$ 640,724</u>

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016.

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due In</u> <u>One Year</u>
2002 GO Note	<u>\$ 45,985</u>	<u>\$ -</u>	<u>\$ 22,377</u>	<u>\$ 23,608</u>	<u>\$ 23,608</u>

HOOVER HILL WATER AND
SANITATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 5: LONG-TERM DEBT (Continued)

General Obligation (GO) Note

On July 15, 2002, the District entered into a general obligation note for \$250,000. The note is due in principal installments of \$19,057 in 2013 increasing to \$23,608 in 2017 (final installment). Interest on the note is at 5.5%. Proceeds from the note were used to finance the construction and to install improvements to the District's water system.

Future Debt Service Requirements

Estimated annual debt service requirements for the outstanding loans at December 31, 2016 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 23,608	\$ 1,298	\$ 24,906
Total Debt Service Requirements	<u>\$ 23,608</u>	<u>1,298</u>	<u>24,906</u>

NOTE 6: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The District has set aside \$11,500 as of December 31, 2016, for emergencies as defined by the Amendment.

INDIVIDUAL FUND FINANCIAL STATEMENT

HOOVER HILL WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE
 PROPRIETARY FUND TYPE
 Year Ended December 31, 2016 and 2015

	2016		VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
User Fees and Surcharges	\$ 303,557	\$ 309,489	\$ 5,932	\$ 283,973
Late Fees	1,700	1,166	(534)	1,615
Property Taxes	66,084	65,960	(124)	54,995
Specific Ownership Taxes	2,643	3,170	527	3,104
Liens and Interest from Users	604	447	(157)	590
Miscellaneous Income	-	74	74	(743)
TOTAL REVENUES	374,588	380,306	5,718	343,534
EXPENDITURES				
Salaries and Benefits	-	-	-	2,060
Director's Fees	3,360	1,810	1,550	4,420
Treasurer's Fees	900	990	(90)	826
Water Fees	233,156	246,615	(13,459)	204,717
Management Fees	38,000	39,364	(1,364)	36,745
Accounting and Audit Fees	5,500	4,000	1,500	5,036
Computer and Software	11,400	(2,757)	14,157	-
Repairs and Maintenance	11,300	14,122	(2,822)	4,393
Capital Expenditures	17,500	8,501	8,999	8,500
Legal Fees	1,000	90	910	2,010
Office Supplies and Expenses	2,400	2,437	(37)	1,751
Utilities	300	269	31	223
Bank and Credit Card Fees	3,000	2,164	836	2,581
Insurance	2,750	3,165	(415)	2,680
Water Analysis	2,000	1,454	546	1,758
Reserves	13,342	-	13,342	-
Miscellaneous	3,774	3,677	97	7,985
Debt Service				
Principal	22,377	22,377	-	21,211
Interest	2,529	3,609	(1,080)	2,221
TOTAL EXPENDITURES	374,588	351,887	22,701	309,117
NET INCOME, Budget Basis	\$ -	28,419	\$ 28,419	\$ 34,417
GAAP BASIS ADJUSTMENTS				
Depreciation		(22,445)		
Principal Paid on Long-term Debt		22,377		
NET GAIN GAAP Basis		28,351		
NET POSITION, Beginning		945,539		
NET POSITION, Ending		\$ 973,890		

See the accompanying independent auditors' report.