
***NORTH PECOS WATER AND
SANITATION DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015***

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Independent Auditors' Report

Board of Directors
North Pecos Water and Sanitation District
Adams County, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the North Pecos Water and Sanitation District (the District), as of and for the years ended December 31, 2016 and 2015, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of A Matter

As discussed in Notes 1 and 2, the District adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective for the year ended December 31, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, which 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison 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. Such 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 budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

RubinBrown LLP

April 21, 2017

Management Discussion and Analysis

As management of the North Pecos Water and Sanitation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with those financial statements.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,888,754.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, along with the difference between the two, reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District has one proprietary fund, an Enterprise Fund. The District uses the Enterprise Fund to account for its water and wastewater treatment operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 7 to 16 of this report.

TOTAL ASSETS / LIABILITIES / NET POSITION

As of the current fiscal year, as well as in the previous two fiscal years, the District is able to report a positive balance in the net position.

	December 31,		
	2016	2015	2014
ASSETS			
Current assets	\$ 4,602,003	\$ 4,824,543	\$ 4,839,678
Capital assets	<u>5,409,036</u>	<u>4,967,235</u>	<u>4,416,076</u>
Total assets	<u>10,011,039</u>	<u>9,791,778</u>	<u>9,255,749</u>
 LIABILITIES			
Current Liabilities			
Accounts Payable and accrued liabilities	122,285	493,824	151,975
Current Portion of Long-Term Obligation	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Current Liabilities	122,285	493,824	151,975
Total Liabilities	<u>122,285</u>	<u>493,824</u>	<u>151,975</u>
 NET POSITION			
Net Investment in capital position	5,409,036	4,967,235	4,416,076
Unrestricted position	<u>4,479,718</u>	<u>4,330,719</u>	<u>4,687,703</u>
Total Net Position	<u>\$ 9,888,754</u>	<u>\$ 9,297,954</u>	<u>\$ 9,103,774</u>

Capital Assets and Debt Administration

The District's total investment in capital assets as of December 31, 2016 was \$5,409,036 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, machinery and equipment.

Financial Analysis

As noted, net position may over time serve as a useful indicator of the District's financial position. Position exceeded liabilities by \$9,888,754 at the close of the most recent fiscal year.

Forty-Five percent of the District's position consists of cash and investments. Investment earnings were consistent in 2016 as compared to 2015.

The District uses the capital positions to provide services to its participants; consequently, the positions are reported net of related debt. It should be noted that resources to repay this debt must be provided from other sources, since the capital position themselves cannot be used to liquidate these liabilities.

CHANGES IN NET POSITION

	December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
OPERATING REVENUE			
Water service fees	\$ 976,756	\$ 898,944	\$ 910,795
Sewer service fees	<u>677,063</u>	<u>500,286</u>	<u>487,856</u>
Total operating revenue	<u>1,653,819</u>	<u>1,399,230</u>	<u>1,398,651</u>
NON OPERATING REVENUE			
Net investment income	21,285	8,656	102,489
Other	<u>211,546</u>	<u>198,533</u>	<u>14,027</u>
Total non-operating revenue	<u>232,831</u>	<u>207,189</u>	<u>116,516</u>
Total revenue	<u>1,886,650</u>	<u>1,606,419</u>	<u>1,515,167</u>
EXPENSES			
OPERATING, GENERAL, ADMINISTRATIVE			
Operating	1,364,768	1,525,579	1,333,423
General and administrative	<u>327,603</u>	<u>333,075</u>	<u>291,258</u>
Total operating, general, admin.	1,692,371	1,858,654	1,624,681
CONTRIBUTED LINES	396,521	446,415	-----
CHANGES IN NET POSITION	590,800	194,180	(109,514)
NET POSITION- BEGINNING OF YEAR	<u>9,297,954</u>	<u>9,103,744</u>	<u>9,213,288</u>
NET POSITION- END OF YEAR	9,888,754	9,297,954	9,103,774

Commercial sewer service fees revenue increased 35.3% in 2016. Water service fee revenue increased 8.66% in 2016. The District had \$396,521 in contributed capital additions during the year. There were approximately \$292,000 capital purchases in 2016.

Long Term Debt: The District has no debt obligation as of December 2016.

Request for Information

This financial report is designed to provide an overview of the North Pecos Water and Sanitation District's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the District's Manager; Russell Traska, 6900 North Pecos, Denver, CO 80221

NORTH PECOS WATER AND SANITATION DISTRICT

STATEMENT OF NET POSITION December 31, 2016 And 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 239,616	\$ 302,049
Investments	4,264,527	4,433,243
Accounts receivable - service fees	97,860	89,251
Total Current Assets	4,602,003	4,824,543
Capital Assets		
Land	108,204	108,204
Construction in progress	—	55,743
Building	307,600	307,600
Water system	5,689,544	5,372,989
Sewer system	2,683,618	2,324,027
Equipment	322,837	346,173
Accumulated depreciation	(3,702,767)	(3,547,501)
Total Capital Assets, Net	5,409,036	4,967,235
Total Assets	10,011,039	9,791,778
Liabilities And Net Position		
Current Liabilities		
Accounts payable	99,065	470,475
Accrued liabilities	23,220	23,349
Total Liabilities	122,285	493,824
Net Position		
Net investment in capital assets	5,409,036	4,967,235
Unrestricted	4,479,718	4,330,719
Total Net Position	\$ 9,888,754	\$ 9,297,954

NORTH PECOS WATER AND SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION For The Years Ended December 31, 2016 And 2015 Page 1 Of 2

	2016	2015
Water Operations		
Operating revenue		
Service fees	\$ 976,756	\$ 898,944
Operating expenses		
Purchased water	653,397	578,744
Maintenance	29,196	12,224
Wages and related costs	71,664	65,003
Depreciation	121,448	112,608
Total Water Operating Expenses	875,705	768,579
Operating Income From Water Operations	101,051	130,365
Sewer Operations		
Operating revenue		
Service fees	677,063	500,286
Operating expenses		
Sewage treatment fees	363,793	640,516
Maintenance	8,132	10,882
Wages and related costs	71,664	65,003
Depreciation	45,474	40,599
Total Sewer Operating Expenses	489,063	757,000
Operating Income (Loss) From Sewer Operations	188,000	(256,714)
General And Administrative Expenses		
Wages and related costs	184,377	183,300
Directors' fees and expenses	5,600	5,700
Legal	30,000	27,600
Accounting	23,000	22,550
Telephone and utilities	11,725	11,621
General office expenses	36,368	38,427
Insurance	12,232	20,799
Other expenses	178	—
Depreciation	24,123	23,078
Total General And Administrative Expenses	327,603	333,075
Loss From Operations	(38,552)	(459,424)

NORTH PECOS WATER AND SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION For The Years Ended December 31, 2016 And 2015 Page 2 Of 2

	<u>2016</u>	<u>2015</u>
Nonoperating Revenue		
Net investment income	\$ 21,285	\$ 8,656
Tap initiation fees	250,357	185,109
Permit and plan review income	4,076	2,217
Gain (loss) on disposal of assets	(47,044)	7,000
Miscellaneous income	4,157	4,207
Total Nonoperating Revenue	<u>232,831</u>	<u>207,189</u>
Gain (Loss) Before Contributions	<u>194,279</u>	<u>(252,235)</u>
Contributed Lines	<u>396,521</u>	<u>446,415</u>
Changes In Net Position	<u>590,800</u>	<u>194,180</u>
Net Position, Beginning Of Year	<u>9,297,954</u>	<u>9,103,774</u>
Net Position, End Of Year	<u>\$ 9,888,754</u>	<u>\$ 9,297,954</u>

NORTH PECOS WATER AND SANITATION DISTRICT

STATEMENT OF CASH FLOWS For The Years Ended December 31, 2016 And 2015

	2016	2015
Operating Activities		
Received from customers	\$ 1,645,210	\$ 1,404,456
Paid to vendors	(1,545,160)	(1,027,214)
Paid to employees and on behalf of employees	(327,705)	(313,306)
Net Cash Provided By (Used In) Operating Activities	(227,655)	63,936
Noncapital Financing Activities		
Other nonoperating revenue	4,517	5,609
Capital And Related Financing Activities		
Tap fees and line extension fees collected	250,357	185,109
Payments for property and equipment	(292,068)	(281,034)
Proceeds from sale of assets	8,699	7,000
Net Cash Used In Capital And Related Financing Activities	(33,012)	(88,925)
Investing Activities		
Proceeds from investments sold	500,000	106,999
Withdrawals from investment account	190,000	—
Interest received	3,717	815
Net Cash Provided By Investing Activities	193,717	107,814
Net Increase (Decrease) In Cash And Cash Equivalents	(62,433)	88,434
Cash And Cash Equivalents, Beginning Of Year	302,049	213,615
Cash And Cash Equivalents, End Of Year	\$ 239,616	\$ 302,049
Cash Flows From Operating Activities		
Loss from operations	\$ (38,552)	\$ (459,424)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	191,045	176,285
Changes in assets and liabilities related to operations:		
(Increase) decrease in accounts receivable - service fees	(8,609)	5,226
(Increase) decrease in accrued liabilities	(129)	6,345
Increase (decrease) in accounts payable	(371,410)	335,504
Total Adjustments	(189,103)	523,360
Net Cash Provided By (Used In) Operating Activities	\$ (227,655)	\$ 63,936
Supplemental Disclosure Of Cash Flow Information		
Contributed lines	\$ 396,521	\$ 446,415

NORTH PECOS WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 And 2015

1. Summary Of Significant Accounting Policies

Organization

The North Pecos Water and Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Adams and Denver Counties, Colorado. The District was established to provide water and sewer services.

Financial Reporting Entity

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial legal entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's reporting entity. Financial accountability includes, but is not limited to, the appointment of a voting majority of the organization's governing body, the ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

Fund Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described in the following sections.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (*Continued*)

Basis Of Accounting

The District measures and reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. Depreciation is computed and recorded as an operating expense, and purchases of property and equipment are shown as increases in assets.

Operating Revenue And Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the statement of revenues, expenses and changes in fund net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses and depreciation of certain assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Taxes

The District did not certify a property tax mill levy for collection in 2016 and 2015.

Budgets

In accordance with the state budget law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end. Budgets are prepared in accordance with GAAP, except that contributions of water and/or sewer lines, tap fees and depreciation are not reflected as a budgetary revenue or expenditure, as they do not generate or require the use of funds available. Additionally, the budget for sewer treatment fees does not follow GAAP, as these expenditures are budgeted on the cash basis. Capital expenditures are expensed for budgetary purposes.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (*Continued*)

Investments

The District's policy is to account for investments at fair value. Gains or losses on the sale of investments are recognized when the investment is sold. The District adopted provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the year ended December 31, 2016, which increased the disclosure requirements relating to the fair value hierarchy of investments.

Accounts Receivable - Service Fees

Accounts receivable - service fees are determined to be fully collectible at December 31, 2016 and 2015; therefore, an allowance for doubtful accounts is not recorded in the financial statements.

Accrued Vacation Payable And Sick Pay

Vacation hours are accrued according to GAAP. Up to one week (40 hours) of vacation may be earned in the first year of employment. After 1 year of employment, an employee may earn an additional week (40 hours) of vacation. After 5 years of employment, an employee may earn an additional week (40 hours) of vacation. Sick pay is earned at a rate of 8 days (64 hours) per year. Vacation and sick pay may not be carried over to the next year. Unused vacation and sick pay is paid to the employees at their hourly rates of pay on the anniversary of their hire dates.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Water and sewer lines are recorded at historical cost or estimated acquisition value at the date of contribution. Depreciation is computed using the straight-line method over the following estimated economic useful lives:

Building	15 - 40 years
Water system	10 - 40 years
Sewer system	10 - 40 years
Equipment	3 - 5 years

Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets and deferred outflows, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments. The remaining net position is reported as unrestricted.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (*Continued*)

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

2. Cash And Investments

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts deposited in excess of federal insurance levels must be collateralized. The eligible collateral is specified by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The State Regulatory Commissioners for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The Federal Deposit Insurance Corporation (FDIC) coverage for government accounts is \$250,000 per official custodian. Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits were not exposed to custodial credit risk, as all deposits were insured by FDIC and/or were collateralized by securities held by the pledging financial institution and covered by eligible collateral as determined by PDPA. The District does not have a deposit policy for custodial credit risk.

Investments

The District adopted a formal investment policy that implements the prudent investor rule as a guideline for investment decisions, which the District makes in following state statutes regarding investments.

Colorado Revised Statutes limit investment maturities to five years or less or three years or less (depending upon the type of investment), unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirement.

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

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (*Continued*)

- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds*
- Guaranteed investment contracts
- Local government investment pools*
- Certain reverse repurchase agreements
- Certain corporate bonds and certain international securities
- Certain securities lending agreements

The District generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party. The bond mutual fund is rated AAA by Morningstar and has an average maturity of one to five years.

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 one recurring fair value measurement for bond mutual funds of \$3,519,893 and \$4,002,316 as of December 31, 2016 and 2015, respectively. These Securities are measured using Level 1 inputs.

As of December 31, 2016 and 2015, the District's investments consisted of the following:

Investment	2016	2015
Money market	\$ 13	\$ 23
Bond mutual fund	3,519,893	4,002,316
Local government investment pool	744,621	430,904
Total Investments	\$ 4,264,527	\$ 4,433,243

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (Continued)

The local government investment pool is the Colorado Local Government Liquid Asset Trust (COLOTRUST) and is rated AAAM by Standard & Poor's. COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing COLOTRUST. COLOTRUST operates similarly to a money market fund, and each share is equal in value to \$1.00. Information regarding COLOTRUST's financial statements is available at its website, www.colotrust.com.

3. Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Capital Assets, Not Being Depreciated				
Land	\$ 108,204	\$ —	\$ —	\$ 108,204
Construction in progress	55,743	—	(55,743)	—
Capital Assets, Being Depreciated				
Building	307,600	—	—	307,600
Water system	5,372,989	316,555	—	5,689,544
Sewer system	2,324,027	359,591	—	2,683,618
Equipment	346,173	12,443	(35,779)	322,837
Total Capital Assets, Being Depreciated	8,350,789	688,589	(35,779)	9,003,599
Less Accumulated Depreciation For				
Building	210,843	7,515	—	218,358
Water system	1,951,125	121,449	—	2,072,574
Sewer system	1,071,262	45,474	—	1,116,736
Equipment	314,271	16,607	(35,779)	295,099
Total Accumulated Depreciation	3,547,501	191,045	(35,779)	3,702,767
Total Capital Assets, Being Depreciated, Net	4,803,288	497,544	—	5,300,832
Capital Assets, Net	\$ 4,967,235	\$ 497,544	\$ (55,743)	\$ 5,409,036

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (Continued)

An analysis of the changes in capital assets for the year ended December 31, 2015 follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital Assets, Not Being Depreciated				
Land	\$ 108,204	\$ —	\$ —	\$ 108,204
Construction in progress	—	55,743	—	55,743
Capital Assets, Being Depreciated				
Building	307,600	—	—	307,600
Water system	4,888,447	484,542	—	5,372,989
Sewer system	2,136,863	187,164	—	2,324,027
Equipment	431,173	—	(85,000)	346,173
Total Capital Assets, Being Depreciated	7,764,083	671,706	(85,000)	8,350,789
Less Accumulated Depreciation For				
Building	203,329	7,514	—	210,843
Water system	1,838,517	112,608	—	1,951,125
Sewer system	1,030,663	40,599	—	1,071,262
Equipment	383,707	15,564	(85,000)	314,271
Total Accumulated Depreciation	3,456,216	176,285	(85,000)	3,547,501
Total Capital Assets, Being Depreciated, Net	4,307,867	495,421	—	4,803,288
Capital Assets, Net	\$ 4,416,071	\$ 551,164	\$ —	\$ 4,967,235

Depreciation expense for 2016 and 2015 was \$191,045 and \$176,285, respectively.

4. Contracts, Commitments And Contingencies

Water Service Contract

The District is provided water under a distributors' contract with the City and County of Denver (the Water Board) through a master meter. The contract provides that the Water Board may restrict the right of the District to issue new taps.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (Continued)

Sewage Treatment Contract

The District is a “member municipality” of Metro Wastewater Reclamation District (Metro) which provides the treatment of sewage collected within the District. The standard service agreement between Metro and the member municipalities provides for annual charges to be assessed by formula against the members on an estimated basis. Revisions to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. The composition of the charges for 2016 and 2015, respectively, are as follows:

	<u>2016</u>	<u>2015</u>
Estimate for current year	\$ 413,847	\$ 295,646
Adjustments from prior year estimates to actual	<u>(50,054)</u>	344,870
Total Annual Charges	\$ 363,793	\$ 640,516

The 2017 sewer treatment estimate is \$362,109, which includes adjustments for prior periods.

Metropolitan Denver Water Authority

The District is a member of the Metropolitan Denver Water Authority (the Authority). The District expenses its share of participation costs as they are billed by the Authority.

5. 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 acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2016 and 2015. 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 any of the past three fiscal years. There have been no significant reductions in insurance coverage from the prior year.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements (*Continued*)

The District pays annual premiums to the Pool for general liability, property, auto and public officials' liability. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

The District continues to carry commercial insurance coverage for other risks of loss including workers compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from prior years.

6. Employee Retirement Plan

The District has implemented a SIMPLE IRA (Savings Incentive Match Plan for Employees) administered by American Century for the full-time employees of the District. The District may make contributions up to 3% of the eligible employees' annual salaries. Employees were allowed to contribute up to \$12,500 per year of their compensation in 2016 and 2015. The employees' contributions amounted to \$15,307 and \$12,527 for 2016 and 2015, respectively. District contributions amounted to \$6,944 and \$6,209 for the 2016 and 2015, respectively.

7. Tax, Spending And Debt Limitations

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. District management believes its water and sewer operations, and all activities related thereto, are carried on as an enterprise within the meaning of TABOR and the Enterprise Act, C.R.S. 37-45-1-01, *et seq.* The District's annual budget and financial statements are deemed by the District to be the annual budget and financial statements of the enterprise.

NORTH PECOS WATER AND SANITATION DISTRICT

Notes To Financial Statements *(Continued)*

Spending and revenue limits are determined based on the prior-year's fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded, unless the voters approve retention of such revenue.

The District's management believes 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.

Supplementary Information

NORTH PECOS WATER AND SANITATION DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE COMPARED TO BUDGET - BUDGETARY BASIS**

For The Year Ended December 31, 2016

	Original And Final Budgeted Amounts	Actual	Variance With Final Budget Positive (Negative)
Revenue			
Water service fees	\$ 1,100,000	\$ 976,756	\$ (123,244)
Sewer service fees	690,000	677,063	(12,937)
Metro connection charge and surcharge	738,000	300,587	(437,413)
Net investment income	5,000	21,285	16,285
Contributed lines	2,300,000	396,521	(1,903,479)
Other	2,500	(38,811)	(41,311)
Tap initiation fees	670,000	250,357	(419,643)
Total Revenue	5,505,500	2,583,758	(2,921,742)
Expenditures			
Purchased water	620,300	653,397	(33,097)
Sewage treatment fees	691,405	413,847	277,558
Maintenance	53,000	37,328	15,672
Metro connection charge	732,000	293,712	438,288
Recover Metro surcharge expense	5,000	6,794	(1,794)
Wages and related costs	388,150	327,705	60,445
Directors' fees and expenses	8,000	5,600	2,400
Legal	32,200	30,000	2,200
Accounting	24,000	23,000	1,000
Engineering	10,000	—	10,000
Telephone and utilities	11,000	11,725	(725)
Office and shop expenses	25,100	20,567	4,533
Insurance	17,000	12,232	4,768
Depreciation	170,292	191,045	(20,753)
Training and education	1,500	610	890
Capital expenditures	1,750,000	292,068	1,457,932
Electronic data support	8,000	6,638	1,362
Public relations	500	630	(130)
Contingency	100,000	8,182	91,818
Total Expenditures	4,647,447	2,335,080	2,312,367
Excess Of Revenue Over Expenditures	\$ 858,053	\$ 248,678	\$ (609,375)

NORTH PECOS WATER AND SANITATION DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE COMPARED TO BUDGET - BUDGETARY BASIS**

For The Year Ended December 31, 2015

	Original And Final Budgeted Amounts	Actual	Variance With Final Budget Positive (Negative)
Revenue			
Water service fees	\$ 890,000	\$ 898,944	\$ 8,944
Sewer service fees	490,000	500,286	10,286
Metro connection charge	838,000	211,898	(626,102)
Net investment income	5,000	8,656	3,656
Other	2,500	13,424	10,924
Tap initiation fees	740,000	185,109	(554,891)
Total Revenue	2,965,500	1,818,317	(1,147,183)
Expenditures			
Purchased water	540,300	578,744	(38,444)
Sewage treatment fees	362,958	362,958	—
Maintenance	23,000	23,052	(52)
Metro connection charge	832,000	205,974	626,026
Recover Metro surcharge expense	5,000	5,924	(924)
Wages and related costs	332,800	313,306	19,494
Directors' fees and expenses	8,000	5,700	2,300
Legal	31,000	27,600	3,400
Accounting	30,000	22,550	7,450
Engineering	50,000	—	50,000
Telephone and utilities	10,600	11,621	(1,021)
Office and shop expenses	13,600	20,007	(6,407)
Insurance	17,000	20,799	(3,799)
Training and education	1,500	310	1,190
Capital expenditures	200,000	281,034	(81,034)
Electronic data support	6,000	6,501	(501)
Public relations	500	560	(60)
Contingency	106,242	11,103	95,139
Total Expenditures	2,570,500	1,897,743	672,757
Deficit Of Revenue Under			
Expenditures	\$ 395,000	\$ (79,426)	\$ (474,426)

NORTH PECOS WATER AND SANITATION DISTRICT

RECONCILIATION OF BUDGETARY BASIS ACTUAL TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For The Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
Revenue (Budgetary Basis)	\$ 2,583,758	\$ 1,818,317
Metro connection charge and surcharge	(300,587)	(211,898)
Contributed lines	—	446,415
Revenue (GAAP)	2,283,171	2,052,834
Expenditures (Budgetary Basis)	2,335,080	1,897,743
Metro connection charge and recover surcharge	(300,587)	(211,898)
Depreciation	—	176,285
Capital outlay	(292,068)	(281,034)
Estimate adjustment for sewer treatment fees	(50,054)	277,558
Expenses (GAAP)	1,692,371	1,858,654
Increase In Net Position Per Statement Of Revenues, Expenses And Changes In Fund Net Position	\$ 590,800	\$ 194,180

NORTH PECOS WATER AND SANITATION DISTRICT

RECONCILIATION OF DEFICIT OF REVENUES UNDER EXPENDITURES (BUDGETARY BASIS) TO NET LOSS BEFORE CONTRIBUTIONS (GAAP BASIS) For The Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
Excess (Deficit) Of Revenues Over Expenditures	\$ 248,678	\$ (79,426)
Adjustments		
Depreciation	—	(176,285)
Capital outlay	292,068	281,034
Contributed lines	(396,521)	—
Estimate adjustment for sewer treatment fees	50,054	(277,558)
Total Adjustments	(54,399)	(172,809)
Net Gain (Loss) Before Contributions (GAAP Basis)	\$ 194,279	\$ (252,235)