

LOMA LINDA SANITATION DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT

December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

February 16, 2018

To the Board of Directors
Loma Linda Sanitation District**Report on the Financial Statements**

We have audited the accompanying statements of net position of Loma Linda Sanitation District as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, the statement of cash flows, and the notes to the financial statements for the years then ended.

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 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 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 financial position of Loma Linda Sanitation District as of December 31, 2017 and 2016, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 audits 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 Loma Linda Sanitation District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

 Beckstead & Co., LLC

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2017

The management of the Loma Linda Sanitation District (the "District"), has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2017 as part of the District's audited Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis, basic financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

BASIC FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position includes all of the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position. The statement of revenues, expenses and changes in net position includes all of the revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., earned, but unused, vacation leave). These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, rates and charges are adequate to cover expenses and develop sufficient reserves.

Statement of Cash Flows. The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, investing and capital and related financing activities.

FINANCIAL HIGHLIGHTS

1. The District's net position on December 31, 2017 totaled \$1,750,183. Net position was \$1,591,095 on December 31, 2016. The increase was due to the completion of the construction of the wastewater treatment plant improvements.
2. In 2017 Operating Revenues totaling \$263,201 exceeded Operating Expenses of \$244,346 resulting in operating income of \$18,855. The 2017 operating income includes depreciation, amortization and other non-cash adjustments of \$74,426. After adding non-cash adjustments, the net cash provided by operating activities was \$93,281.

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Management's Discussion and Analysis
December 31, 2017

3. Cash receipts from tap fees were \$38,750 in 2016, a decrease of \$7,950 from 2016 tap fee revenue.

FINANCIAL ANALYSIS OF THE LOMA LINDA SANITATION DISTRICT

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost-efficient manner that is similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers or when plant investment fees are not sufficient; and,
4. Plant investment fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

The District has experienced little growth in the last 8-10 years. There have been no major developments approved in the District. Tap fee sales have been limited to a small number typically for adding a second dwelling or placing a residential unit on an undeveloped lot. There are only a limited number of undeveloped lots remaining. It is unlikely that there will be significant development creating demand for new sewer service unless central water is made available to property in the District service area.

Because of the need to fund improvements to meet the new requirement for ammonia removal the District obtained loans from the Colorado Water Resources and Power Development Authority totaling \$1,338,674 and grants totaling \$850,000. In order to insure adequate revenue to repay the loans the monthly user fee was increased to \$55. Unless new growth brings significant tap fee revenue it may be necessary to increase user fees to cover increased operating expenses.

Day-to-Day Operational Control of the District

The District operates as a self-supporting enterprise. Operating expenses include costs for sewage collection, sewage treatment and administration. These expenses are paid by operating revenues from user fees. Non-operating expenses consist of capital projects and debt service. Non-operating revenues are provided by Plant Investment Fees (tap fees), proceeds from bond issues or other loans and interest earnings on capital reserves. In cases where capital improvements are needed to serve existing customers, operating reserves or user fees are used to

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Management's Discussion and Analysis
December 31, 2017

fund the current customers' share of the improvements. As noted above, operating revenues (user fees) will be needed to pay debt service for the loans used to fund the improvements to the wastewater treatment plant unless non-operating revenues (tap fees) show a substantial and consistent increase.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool that is critical to the District's long-range financial planning efforts.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, regulatory changes or policy changes, provide an integrated assessment of the District's health.

TABLE A
Summary Statement of Net Position

	2017	2016	
Current assets	\$ 91,985	\$ 542,624	
Undisbursed loan proceeds	\$ 0	\$ 27,539	
Net utility plant in service	<u>\$2,984,975</u>	<u>\$2,551,041</u>	
Total assets	\$3,076,960	\$3,121,204	
Current liabilities	\$ 98,164	\$ 241,525	
Long-term liabilities	<u>\$1,228,613</u>	<u>\$1,288,584</u>	
Total liabilities	\$1,326,777	\$1,530,109	
Net position:			
Invested in capital assets (net)	\$1,696,390	\$1,212,367	
Restricted for debt service	\$ 41,774	\$ 37,494	
Unrestricted	<u>\$ 12,019</u>	<u>\$ 341,234</u>	
Total net position	\$1,750,183	\$1,591,095	\$

From December 31, 2016 to December 31, 2017, total assets decreased slightly while total liabilities decreased by a greater amount. As a result the District's net position increased by \$159,088. The increase is primarily due to the payment of retainage and accounts payable for the completion of the wastewater treatment plant improvements.

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Management's Discussion and Analysis
December 31, 2017

Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2016-2017 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year to year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is not expected to provide sufficient revenue to pay all debt service so existing customers will need to continue to pay debt service for at least the foreseeable future.

Non-cash expenditures such as depreciation are not always covered by operating revenue. When no tap fee revenue is available, user fee revenues are used to pay debt service so the amount available to cover non-cash expenditures is reduced.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016
Total operating revenues	\$ 263,201	\$ 224,711
Total operating expenses	<u>\$ 244,346</u>	<u>\$ 186,369</u>
Operating income	\$ 18,855	\$ 38,342
Non-operating revenue	\$ 162,641	\$ 773,157
Non-operating expense	<u>\$ (22,408)</u>	<u>\$ (17,331)</u>
Total non-operating revenue	\$ 140,233	\$ 755,826
Net income	\$ 159,088	\$ 794,168
Beginning net position	\$ 1,591,095	\$ 796,927
Ending net position	\$ 1,750,183	\$ 1,591,095

ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management of the Loma Linda Sanitation District considered many factors when it established the budget for 2017. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The 2017 budget did not include an increase in user fee revenue however once actual operating costs for the upgraded wastewater treatment plant are available, it may be necessary to increase rates to cover increased operating costs.

The Capital Improvements Plan (CIP) of the District is updated based on revised cost estimates, timing of capital improvements and interest costs for capital financing. If necessary, the rate for tap fees is adjusted to ensure that the District's Financial Policy Priorities continue to be achieved. Since the District has substantial capacity following the completion of the wastewater treatment plant improvements in 2017, no major capital projects are likely for several years

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
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CONTACTING THE DISTRICT

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information, please contact the Loma Linda Sanitation District at PO Box 2024, Durango, Colorado 81302-2024.

Loma Linda Sanitation District
STATEMENTS OF NET POSITION

December 31,

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,238	\$ 240,681
Investments	51,041	2,981
Accounts receivable	26,546	21,221
Grants receivable	1,160	277,741
Total current assets	91,985	542,624
Undisbursed Loan Proceeds	-	27,539
Utility Plant in Service		
Land and easements	65,900	65,900
Construction in progress	-	2,085,437
Buildings and improvements	251,435	18,995
Plant and improvements	2,529,706	1,152,334
Equipment	1,065,037	78,229
	3,912,078	3,400,895
Less accumulated depreciation	(927,103)	(849,854)
Net utility plant in service	2,984,975	2,551,041
Total assets	\$ 3,076,960	\$ 3,121,204
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	\$ 16,109	\$ 115,945
Retainage payable	-	54,095
Revenue received in advance of service	22,083	21,395
Current portion of long-term debt	59,972	50,090
Total current liabilities	98,164	241,525
Non-current liabilities		
Long-term debt, net of current portion	1,228,613	1,288,584
Total liabilities	1,326,777	1,530,109
Net Position		
Net investment in capital assets	1,696,390	1,212,367
Restricted for debt service	41,774	37,494
Unrestricted	12,019	341,234
Total net position	1,750,183	1,591,095
Total liabilities and net position	\$ 3,076,960	\$ 3,121,204

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31,

	2017	2016
Operating Revenues		
Charges for services	\$ 263,201	\$ 224,711
Operating Expenses		
Collection and treatment	179,028	121,580
General and administrative	<u>65,318</u>	<u>64,789</u>
	Total operating expenses	<u>186,369</u>
	Operating income (loss)	38,342
Non-operating Revenues (Expenses)		
Grant revenue	123,635	726,365
Tap fees	38,750	46,700
Investment earnings	256	34
Other income (expense)	-	58
Interest expense	<u>(22,408)</u>	<u>(17,331)</u>
	Total non-operating revenues (expenses)	<u>755,826</u>
	Net income (loss)	794,168
Net position at beginning of year	<u>1,591,095</u>	<u>796,927</u>
Net position at end of year	<u>\$ 1,750,183</u>	<u>\$ 1,591,095</u>

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	\$ 258,564	\$ 225,424
Cash paid to suppliers	(165,283)	(138,886)
Net Cash Provided (Used) by Operating Activities	<u>93,281</u>	<u>86,538</u>
Cash Flows from Non-capital Financing Activities		
Tap fees	38,750	46,700
Net Cash Provided (Used) by Non-capital Financing Activities	<u>38,750</u>	<u>46,700</u>
Cash Flows from Capital and Related Financing Activities		
Debt principal payments	(50,089)	(37,122)
Proceeds from debt	27,539	1,158,525
Capital grant proceeds received	400,216	448,624
Interest on debt	(22,408)	(17,331)
Purchases of capital assets	(666,928)	(1,543,292)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(311,670)</u>	<u>9,404</u>
Cash Flows from Investing Activities		
Purchase of investments	(48,060)	(19)
Interest income	256	34
Net Cash Provided (Used) by Investing Activities	<u>(47,804)</u>	<u>15</u>
Net Cash Increase (Decrease)	<u>(227,443)</u>	<u>142,657</u>
Cash at beginning of year	240,681	98,024
Cash at end of year	<u>\$ 13,238</u>	<u>\$ 240,681</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Net operating income (loss)	\$ 18,855	\$ 38,342
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	77,249	36,393
Other income (expense)	-	58
(Increase) Decrease in accounts receivable	(5,325)	(5,383)
(Increase) Decrease in prepaid expenses	-	5,549
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	1,814	5,541
Increase (Decrease) in revenue received in advance of service	688	6,038
Total Adjustments	<u>74,426</u>	<u>48,196</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 93,281</u>	<u>\$ 86,538</u>
Noncash Capital and Related Financing Activities		
Grants receivable	\$ -	\$ 277,741
Retainage payable incurred for capital assets	\$ -	\$ 54,095
Accounts payable incurred for capital assets	\$ -	\$ 101,650

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A – DEFINITION OF REPORTING ENTITY

The Loma Linda Sanitation District (the District) was formed November 4, 1985, for the purpose of providing 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 not financially accountable for any other organization, nor is the District a component unit of any other primary governmental 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 reporting 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 legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

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

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

Proprietary Fund

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 (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Allowances for Uncollectibles

No allowance for uncollectibles has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives range from 5 to 50 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District's policy with regard to the order of spending is to spend the restricted funds first.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in 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 sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE C – CASH AND INVESTMENTS

Cash is stated at cost, which approximates fair value, and consists of cash in checking and certificates of deposit. Investments are with Colotrust as subsequently described. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

Cash balances at December 31, 2017 and 2016, are as follows:

	2017			2016		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	\$ 13,238	\$ 14,030	\$ -	\$ 240,681	\$ 297,102	\$ -

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

Pledged collateral must be held in an escrow account with another financial institution approved by the state banking commission. The pledged collateral cannot be released unless approval is obtained from the banking commission.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

Investments

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) establishes disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or all collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

The District has invested \$51,041 and \$2,981 at December 31, 2017 and 2016, respectively, in the Colorado Local Governmental Liquid Asset Trust, (Colotrust) an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions. Substantially 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. Colotrust funds carry a Standard and Poor’s AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust records its investments at amortized cost and the District records its investment in Colotrust using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

The Districts investments consisted of:

	<u>2017</u>	<u>2016</u>
ColoTrust	<u>51,041</u>	<u>2,981</u>
Total	<u><u>\$ 51,041</u></u>	<u><u>\$ 2,981</u></u>

NOTE D – TAX SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District qualifies as an “Enterprise” because it is a government owned business authorized to issue revenue bonds and it receives less than 10% of its annual revenue in grants from state and local grants. It is therefore exempt from some provisions of the 1992 amendment. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E – LONG TERM DEBT

	<u>2017</u>	<u>2016</u>
CWRPDA 2014 Note Payable	\$ 800,799	\$ 838,674
CWRPDA 2016 Note Payable	<u>487,786</u>	<u>500,000</u>
	1,288,585	1,338,674
Less current portion	<u>59,972</u>	<u>50,090</u>
Noncurrent portion	<u><u>\$1,228,613</u></u>	<u><u>\$1,288,584</u></u>

Changes in long-term debt for 2017 follow:

	<u>Beginning Balance</u>	<u>Additions (Deletions)</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Within One Year</u>
CWRPDA 2014 note payable	\$ 838,674	\$ -	\$ 37,875	\$ 800,799	\$ 38,636
CWRPDA 2016 note payable	<u>500,000</u>	<u>-</u>	<u>12,214</u>	<u>487,786</u>	<u>21,336</u>
Total	<u><u>\$1,338,674</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,089</u></u>	<u><u>\$1,288,585</u></u>	<u><u>\$ 59,972</u></u>

Changes in long-term debt for 2016 follow:

	<u>Beginning Balance</u>	<u>Additions (Deletions)</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Due Within</u>
CWRPDA 2014 note payable	\$ 875,796	\$ -	\$ 37,122	\$ 838,674	\$ 37,875
CWRPDA 2016 note payable	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>12,215</u>
Total	<u><u>\$ 875,796</u></u>	<u><u>\$500,000</u></u>	<u><u>\$ 37,122</u></u>	<u><u>\$1,338,674</u></u>	<u><u>\$ 50,090</u></u>

CWRPDA 2014 Note Payable

On November 13, 2014, the District obtained an \$878,792 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through May, 2035. The loan is secured by a lien on the District’s wastewater treatment facility.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E – LONG TERM DEBT – CONTINUED

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

CWRPDA 2016 Note Payable

On September 16, 2016, the District obtained a \$500,000 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District's wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through November, 2036. The loan is secured by a lien on the District's wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E – LONG TERM DEBT – CONTINUED

The following is a summary of the debt service requirements to maturity on the District’s CWRPDA notes payable:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 59,972	\$ 25,474	\$ 85,446
2019	61,177	24,269	85,446
2020	62,406	23,040	85,446
2021	63,663	21,783	85,446
2022	64,941	20,505	85,446
2023-2027	344,819	82,411	427,230
2028-2032	380,896	46,334	427,230
2033-2036	250,711	9,391	260,102
	<u>\$1,288,585</u>	<u>\$253,207</u>	<u>\$1,541,792</u>

NOTE F – CAPITAL ASSETS

A summary of changes in capital assets during 2017 is as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Adjustments / Deletions</u>	<u>End of Year</u>
Non-depreciable assets:				
Land and easements	\$ 65,900	\$ -	\$ -	\$ 65,900
Construction in progress	2,085,437	511,183	(2,596,620)	-
	<u>2,151,337</u>	<u>511,183</u>	<u>(2,596,620)</u>	<u>65,900</u>
Depreciable assets:				
Plant and improvements	1,152,334	-	1,377,372	2,529,706
Equipment	78,229	-	986,808	1,065,037
Building and improvements	18,995	-	232,440	251,435
	<u>3,400,895</u>	<u>511,183</u>	<u>-</u>	<u>3,912,078</u>
Less accumulated depreciation	<u>849,854</u>	<u>77,249</u>	<u>-</u>	<u>927,103</u>
Net Utility Plant in Service	<u>\$ 2,551,041</u>	<u>\$ 433,934</u>	<u>\$ -</u>	<u>\$ 2,984,975</u>

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F – CAPITAL ASSETS – CONTINUED

A summary of changes in capital assets during 2016 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land and easements	\$ 65,900	\$ -	\$ -	\$ 65,900
Construction in progress	-	1,699,037	386,400	2,085,437
	<u>65,900</u>	<u>1,699,037</u>	<u>386,400</u>	<u>2,151,337</u>
Depreciable assets:				
Plant and improvements	1,538,734	-	(386,400)	1,152,334
Equipment	78,229	-	-	78,229
Building and improvements	18,995	-	-	18,995
	<u>1,701,858</u>	<u>1,699,037</u>	<u>-</u>	<u>3,400,895</u>
Less accumulated depreciation	<u>813,461</u>	<u>36,393</u>	<u>-</u>	<u>849,854</u>
Net Utility Plant in Service	<u>\$ 888,397</u>	<u>\$1,662,644</u>	<u>\$ -</u>	<u>\$ 2,551,041</u>

NOTE G – RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District is insured for property, general liability, miscellaneous property and public official liability through membership in the Colorado Special District Property and Liability Insurance Pool (CSDPLP). The CSDPLP has a legal obligation for claims against its members to the extent that funds are available in its annually established loss fund and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the participating members. The CSDPLP has indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the years such excess occurs, although it is not legally require to do so. Ultimate liability to the District resulting from claims not covered by CSDPLP is not presently determinable. There were no material reductions in insurance coverage provided to the District and any amounts of settlements have not exceeded insurance coverage for the past three years.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G – RISK OF LOSS – CONTINUED

CSDPLP has contracted with other third parties to operate, administer and manage the Pool. The Pool is responsible for its own budgets. CSDPLP's summary audited financial information as of December 31, 2016 (the most recent available), is as follows:

Assets	<u>\$52,645,796</u>
Liabilities	<u>\$28,757,242</u>
Surplus	<u>23,888,554</u>
	<u>\$52,645,796</u>
Revenues	\$19,338,769
Expenses	<u>14,100,230</u>
Net Income (Loss)	<u>\$ 5,238,539</u>

SUPPLEMENTAL INFORMATION

Loma Linda Sanitation District

SCHEDULES OF OPERATING EXPENSES

For the year ended December 31,

	2017	2016
Collection and treatment		
Depreciation	\$ 77,249	\$ 36,393
Employee payroll	33,789	30,037
Utilities	23,726	12,326
Operator	15,725	11,100
Payroll tax expense	10,507	10,256
System maintenance	9,491	11,840
Testing	3,714	4,113
Supplies	3,657	4,214
Vehicle expense	1,170	1,301
	<u>179,028</u>	<u>121,580</u>
Total collection and treatment	\$ <u>179,028</u>	\$ <u>121,580</u>
General and Administrative		
Accounting and legal	\$ 46,908	\$ 43,402
Insurance	6,958	6,565
Postage and office	5,849	6,338
Board of directors	3,230	5,060
Other	1,269	1,459
Dues and licenses	604	1,715
Engineering costs	500	250
	<u>65,318</u>	<u>64,789</u>
Total general and administrative expenses	\$ <u>65,318</u>	\$ <u>64,789</u>

Loma Linda Sanitation District

SCHEDULES OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31,

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
2017						
Total expenditures	\$ 713,893	\$ 906,522	\$ 266,754	\$ 639,768	\$ 906,522	\$ -
2016						
Total expenditures	\$ 1,546,726	\$ 1,858,582	203,700	\$ 1,544,021	1,747,721	110,861

Adjustments to budgetary basis are comprised of principal reductions on long-term debt, capital expenditures, and depreciation expense.

Loma Linda Sanitation District

SCHEDULE OF COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY LOAN COMPLIANCE

For the year ended December 31, 2017

Rate Covenant

Gross Revenue:			
Charges for services			\$ 263,201
Tap fees			38,750
Investment earnings			256
Other income			<u>-</u>
			302,207
Operation and maintenance expenses:			
Total operating expenses	244,346		
Less depreciation expense	<u>(77,249)</u>		
		167,097	
Current year debt service requirements for CWRPDA loan and parity lien obligations:			
2014 Colorado Water Resources and Power Development Authority Loan	54,460		
2016 Colorado Water Resources and Power Development Authority Loan	<u>18,031</u>		
			72,491
Required coverage		<u>110%</u>	
			79,740
Current year required payments into debt service reserve account for CWRPDA loan and parity lien obligations			-
Current year debt service requirements on subordinate lien obligations			-
Current year debt service requirements on other obligations			<u>-</u>
			246,837
Excess (deficiency) of gross revenues over covered expenses			<u>\$ 55,370</u>

Operations and Maintenance Reserve Covenant

Required reserve equal to three months operations and maintenance expenses		\$ 41,774
Restricted net position on the Statement of Net Position		41,774

Lien Representation

No new obligations other than with CWRPDA with liens on the wastewater treatment facility were incurred during the year.