



FINANCIAL STATEMENTS

Year Ended December 31, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This is an analysis and overview of the financial activities of the Upper Thompson Sanitation District (UTSD) for the year ended December 31, 2017. This information should be read in conjunction with the financial statements and notes which follow:

FINANCIAL HIGHLIGHTS

- As of December 31, 2017, approximately \$29.1 million was held in net position for the provision of future services to citizens.
- For fiscal year 2017, the total net position increased by \$798,155 or 3% from 2016. This was primarily from capital contributions.
- Operating revenue for 2017 totaled \$3.7 million, which is an increase of 9% from 2016. This was primarily due to an increase in service fees.
- The District treated 300.21 million gallons of wastewater in 2017 – an increase of 54 million gallons or 20% from 2016. The cost of treatment was \$.0068 per gallon and a \$.0017 decrease from 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to UTSD's financial statements which follow. The statements include:

1. Statement of Net Position
2. Statement of Revenue, Expenses, and Changes in Net Position
3. Statement of Cash Flows
4. Notes to Financial Statements.

Statements of revenue, expenses, and changes in net position present UTSD revenue and expenses for the year ended December 31, 2017.

Statements of cash flows show the net cash flows from activities for the year ended December 31, 2017.

These statements are in compliance with Governmental Accounting Standards Board (GASB) Statements. These pronouncements address the requirements for financial statement presentation and certain disclosures for state and local governmental entities. UTSD's financial statements comply with all material requirements of these pronouncements.

These statements provide a snapshot of UTSD's assets and liabilities as of December 31, 2017 and the activities which occurred during the year. All statements were prepared using the accrual basis of accounting as required by GASB.

Notes to financial statements provide additional information which is essential to a full understanding of the basic financial statements.

FINANCIAL ANALYSIS

As of December 31, UTSD's net position was:

December 31	2017	2016
Cash	\$ 1,614,723	\$ 614,091
Investments	8,032,407	7,588,267
Receivables	1,063,581	1,021,544
Inventories	37,297	37,297
Capital Assets, net	20,208,857	20,694,398
Deferred Outflows of resources	110,735	372,830
Total Assets and Deferred Outflows	31,067,599	30,328,427
Less Liabilities and Deferred Inflows	1,969,033	2,028,016
Net Position	\$ 29,098,566	\$ 28,300,411

The following is a comparison of UTSD's results of operations:

Years Ended December 31	2017	2016
Revenues:		
Service charges	\$ 3,730,065	\$ 3,421,530
State and federal flood capital grants	--	379,460
Other income	146,899	15,831
Capital contributions	249,640	1,046,245
Total Revenues	4,126,604	4,863,066
Expenses:		
Operating expenses:		
Plant	1,427,654	1,517,048
Lines	1,025,148	1,088,047
Administration	875,647	869,762
Total Expenses	3,328,449	3,475,757
Net Income	\$ 798,155	\$ 1,387,309

Net position has changed due to the following:

- During 2017, operating revenue increased approximately 9%, due to a scheduled increase in service rates.
- During 2017, operating expenses decreased by 4%.

CAPITAL ASSETS

The District experienced the catastrophic failure of approximately 25,000 linear feet of its sanitary sewer collection system along the Fish Creek and Fall River corridors due to the September 2013 flood. The treatment plant and two lift stations were also damaged and rendered temporarily inoperable from excessive silt and debris from the flooding. Damage assessments, prepared by FEMA, totaled \$9.2 million. Considering 75% FEMA and 12.5% State of Colorado reimbursement, the District was responsible for the remaining 12.5%, or approximately \$1.15 million in expenses. Collection system re-construction was completed in the fall of 2015. In 2014 the District received notice of award for additional flood recovery grants totaling \$564,730 from the Community Development Block Grant – Disaster Recovery Program. Final reconciliation of expenses based on project closeout may occur in 2018, subject to federal audit with a 3-year time frame.

OTHER MATTERS

The following factors are expected to have a significant effect on UTSD's future financial position and results of operations:

Staff continues to develop a 20 year master plan to address all future wastewater requirements and needs of the District and the Estes Valley. Additionally, each year the District develops a Capital Improvement Plan which is a dynamic tool used to project the total dollars in needed expansion, improvements, and attention to ongoing maintenance required over a 10 year period moving into the future.

The District's 20-year Capital Improvement Plan identifies major facility upgrades in consideration of the facility's 50-year design life which concludes in 2025. The current wastewater treatment facility will be unable to process future wastewater flows and unable to reduce nutrients and metals to anticipated water quality standard effluent levels without significant modifications and site expansion. To that end, the District's planning will include a wastewater treatment facility site alternatives evaluation and financial forecasting necessary to support future expansion.

The Board of Directors and District Manager, in consultation with the District Engineer, are reviewing the operational upgrades required in order to meet the District's current needs and future plans. Using the Capital Improvement Plan, future allocation of funds are designated for capacity expansion at the wastewater treatment facility, implementation of technology to address newly defined EPA/State of Colorado discharge requirements, upgrade or replacement of the collection system and the increasing costs of fuel, chemicals and utilities. To meet identified budgetary needs, beginning in 2012, the District Board of Directors determined the necessity of a 3-year, 8.5% annual increase in customer service rates, concluding in 2014. In order to assess rates moving forward, the District retained the services of Hatch Mott MacDonald (now Mott MacDonald) and Raftelis Financial Consultants, Inc. to conduct a comprehensive wastewater cost of service study. The primary conclusions and recommendations resulting from this study determined that the District should incrementally increase service rates and explore paying for some portion of its forecasted capital expenditures using debt. To maintain operational solvency and continue funding short term capital projects, the Board of Directors adopted an additional 3-year, 8.5% annual customer service rate increase beginning in 2015 and ending in 2018. Additionally, the District may consider the use of debt financing as early as 2019 and has immediately began investigating options regarding external debt financing.

Federal and State agencies are in the process of implementing more stringent nutrient requirements, specifically regarding wastewater effluent discharge of nitrogen and phosphorus. The District's Colorado Discharge Permit System (CDPS) permit, effective November 1, 2011, also includes a compliance schedule to meet metals limits for total recoverable arsenic, potentially dissolved (PD) cadmium, PD copper, total mercury, and PD silver. The CDPS permit indicates the metals limits become effective on October 1, 2016. Once the State nutrient and metals requirements are implemented, the District will be required to initiate upgrades at the wastewater treatment plant, which will significantly impact the District's financial resources.

REQUESTS FOR INFORMATION

This discussion and analysis is designed to provide a general overview of UTSD's activities for the year ended December 31, 2017. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: District Manager, Upper Thompson Sanitation District, P.O. Box 568, Estes Park, CO 80517.



Independent Auditors' Report

Board of Directors
Upper Thompson Sanitation District
Estes Park, Colorado

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Upper Thompson Sanitation District as of December 31, 2017, and for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Thompson Sanitation District as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Other Matters

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 25-30 are presented for purposes of additional analysis and are not a required part of the basic 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States require that management discussion and analysis and pension information 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, 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 evidence sufficient to express an opinion or provide any assurance.

Anderson & Whitney, P.C.

September 24, 2018

UPPER THOMPSON SANITATION DISTRICT

STATEMENT OF NET POSITION

December 31	2017
<u>ASSETS AND DEFERRED OUTFLOWS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,614,723
Investments	8,032,407
Receivables:	
Trade accounts	323,298
Grant receivables, net of allowance	740,283
Inventories	37,296
<u> Total Current Assets</u>	<u>10,748,007</u>
Capital Assets:	
Land, other property rights, and construction in progress	159,962
Other capital assets, net of accumulated depreciation	20,048,895
<u> Total Capital Assets</u>	<u>20,208,857</u>
Deferred Outflows of Resources:	
Pension Plan	110,735
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS</u>	<u>\$ 31,067,599</u>
<u>LIABILITIES AND DEFERRED INFLOWS</u>	
Current Liabilities:	
Accounts payable	\$ 16,728
Customer prepayments	16,619
Accrued wages and payroll liabilities	35,127
Accrued expenses	60,521
Compensated absences	81,736
Net pension liability	1,472,151
Deferred Inflows of Resources:	
Pension Plan	286,151
<u> Total Liabilities and Deferred Inflows of Resources</u>	<u>1,969,033</u>
<u>NET POSITION</u>	
Investment in Capital Assets	20,208,857
Unrestricted Net Position	8,889,709
<u>TOTAL NET POSITION</u>	<u>\$ 29,098,566</u>

See Accompanying Notes to Financial Statements.

UPPER THOMPSON SANITATION DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31	2017
Operating Revenue:	
Sewer charges	\$ 3,676,016
Dump fees	54,049
Access and permit fees	16,048
Total Operating Revenue	3,746,113
Operating Expenses:	
Plant	1,427,654
Lines	1,025,148
Administration	875,647
Total Operating Expenses	3,328,449
Operating Income	417,664
Non-operating Revenue (Expenses):	
Interest income	93,075
Other income	37,776
Net Non-operating Revenue	130,851
Income Before Contributions	548,515
Capital contributions	249,640
Net Income	798,155
Net Position, Beginning of Year	28,300,411
Net Position, End of Year	\$ 29,098,566

See Accompanying Notes to Financial Statements.

UPPER THOMPSON SANITATION DISTRICT

STATEMENT OF CASH FLOWS

Year Ended December 31	2017
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 3,950,022
Payments to suppliers and employees	(2,440,270)
Net Cash Provided by Operating Activities	1,509,752
Cash Flows from Capital and Related Financing Activities:	
Acquisition of property, plant and equipment	(397,795)
Capital contributions	239,740
Net Cash Used by Capital and Related Financing Activities	(158,055)
Cash Flows from Noncapital Financing Activities:	
Other	-
Net Cash Provided by Noncapital Financing Activities	-
Cash Flows from Investing Activities:	
Interest and dividends received	93,075
Purchase of investments	(444,140)
Net Cash Flows from Investing Activities	(351,065)
Net Decrease in Cash and Cash Equivalents	1,000,632
Cash and Cash Equivalents, Beginning of Year	\$614,091
Cash and Cash Equivalents, End of Year	\$ 1,614,723

Reconciliation of Operating Loss to Net Cash Provided by

Operating Activities:	
Operating income	\$ 465,341
Depreciation	883,337
Change in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(42,037)
Inventories	-
Increase (decrease) in:	
Accounts payable and accrued expenses	6,453
Net pension liability and deferrals	196,658
Net Cash Provided by Operating Activities	\$ 1,509,752

See Accompanying Notes to Financial Statements.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies:

This summary of the Upper Thompson Sanitation District's significant accounting policies is to assist the reader with 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.

Form of Organization:

Upper Thompson Sanitation District is an independent governmental entity organized in July 1971, under the provisions of the Colorado Revised Statutes. The District's Board of Directors is elected by property owners of the District and has the responsibilities for designation of management, operational decisions, and budget matters. The District is fully responsible for its financial matters and is not financially interdependent with another governmental unit. Revenues are derived by service charges determined by the Board. The District exists for the benefit of its residents and services of the District are generally available to the residents of the District.

Scope of Reporting Entity:

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Financial Reporting Entity:

For financial reporting purposes, management has considered all potential component units in defining the District. The basic criterion for including a potential component unit is the District's ability to exercise significant operational control or financial accountability with the District. Financial relationship or operational control is determined on the basis of the District's obligation to fund deficits, responsibility for debt, budgetary authority, fiscal management, selection of governing authority and/or management, and the ability to significantly influence operations.

Based on the criteria mentioned above, no other entities are considered to be component units of the District, nor is the District a component unit of any other governmental entity.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies - Continued:

Basis of Accounting:

The District currently operates as an “Enterprise Fund” as prescribed in governmental accounting standards because the intent of the Board is that costs and expenses (including depreciation) of providing services to its customers be financed or recovered primarily through user charges. The accrual basis of accounting is utilized for its operations. The District does not use encumbrance accounting.

The Enterprise Fund is accounted for on a cost of services “capital maintenance” measurement focus. Under this concept, all assets and all liabilities (whether current or noncurrent) associated with the activity are reported on the balance sheet. The reported fund equity (net position) is segregated into net investment in capital and unrestricted components. The proprietary fund type operation statement reports increases (revenues) and decreases (expenses) in net position.

Enterprise funds distinguish *operating* revenues from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the District are sewer charges and related services. 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 non-operating revenues and expenses.

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

Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are stated at cost except for property received by donation or contribution, which is stated at its estimated fair market value at the time it is received by the District. The cost of maintenance and repairs is charged against income as incurred; significant renewals, betterments, and improvements are capitalized.

Depreciation has been computed using the straight-line method based on lives of 20 to 50 years for the treatment plant and collection lines and 5 to 10 years for service equipment.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies - Continued:

Deferred Outflows and Inflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has one item that qualifies for reporting in this category: changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category: changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

Connection Fees:

Potential customers seeking to connect to the sewer treatment system must make a formal written request to the District. If the application is approved, the applicant may purchase a tap by paying a system development fee (SDF) of \$8,700 per single-family equivalent unit (SFE). System development fees for nonresidential customers are assessed using actual metered flow data obtained from an outside source. In addition to the SDF, a line extension fee is charged. System development fees and line extension fees are recorded as capital contributions from customers and subdividers.

Compensated Absences:

Employees of the District are entitled to paid vacation time depending on length of service. Accrued compensated absences totaled \$81,736 at December 31, 2017.

Budgets:

Colorado state law requires the adoption of an annual budget. Appropriations lapse at the end of each year. The budget and related appropriations are prepared on the budgetary basis, which differs from accounting principles generally accepted in the United States, in that:

- * Capital outlays are budgeted as expenditures.
- * Depreciation is not budgeted.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies - Continued:

The District's Board of Directors adopts total budget appropriations for each of its funds. This is normally done in December of each year when notice is published in local newspapers and the proposed budget is held open for inspection by the taxpayers and a public hearing is held. The Board may transfer budget amounts between departments within any fund; however, any revision that alters the total appropriation of any fund requires that a budget revision be adopted by resolution in the same manner described above for adoption of the original budget. The level of budgetary responsibility is by total fund appropriations.

Pensions:

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

NOTE 2 – Cash and Investments:

The District's bank accounts and certificates of deposit at year-end were entirely covered by federal depository insurance or by collateral held by the Authority's custodial banks under provisions of the Colorado Public Deposit Protection Act.

The Colorado Public Deposit Protection Act requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the State of Colorado or of any county, school, authority, and certain towns and cities therein, notes or bonds secured by insured mortgages or trust deeds, obligations of national mortgage associations, and certain repurchase agreements.

The District's investment policy is not more restrictive than State statutes. The District's investments are concentrated in bank CD's of \$250,000 or less.

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 values arising from increasing interest rates.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Cash and Investments: - Continued:

Investments are reported at fair value and held as of December 31, 2017 as follows:

December 31, 2017	Cost	Fair Value
ColoTrust	\$ 6,132,819	\$ 6,132,819
Cash	14,635	14,635
Bank CD's	1,276,981	1,249,213
U.S. Agency Bonds, rated AAA	652,860	635,740
	\$ 8,077,295	\$ 8,032,407

At December 31, 2017, the District had invested \$6,132,189 in the Colorado Local Government 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 valued at the net asset value (NAV) of \$1.00. Investments of COLOTRUST consist of bills, notes, and bonds issued by the U.S. Treasury or a government agency, and repurchase agreements secured by such obligations. COLOTRUST is rated AAA by Standard & Poor's. The District's interest is valued at NAV.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Cash and Investments: - Continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

Description	Fair Value Measurements at Reporting Date Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2017</u>			
Bank C.D.'s	\$ --	\$ 1,249,213	\$ --
Cash	14,635	--	--
U.S. Agency Bonds	--	635,740	--

NOTE 3 – Capital Assets:

	Balance		Balance	
	1/1/17	Additions	Deletions	12/31/17
Not depreciated:				
Land and easements	\$ 159,962	\$ --	\$ --	\$ 159,962
Depreciable capital assets:				
Buildings	706,059	--	--	706,059
Collection system	22,316,484	191,466	1,889,745	20,618,205
Sewage treatment plant	11,058,648	42,573	--	11,101,221
Equipment and vehicles	2,921,157	163,756	--	3,084,913
	37,002,348	397,795	1,889,745	35,510,398
Less Accumulated				
Depreciation	(16,467,912)	(883,337)	1,889,745	(15,461,504)
Net Capital Assets	\$ 20,694,398	\$ (485,542)	\$ --	\$20,208,856

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA:

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

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

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by the Internal Revenue Code.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued:

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

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

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

Years Ended December 31	2017	2016
Employer contribution rate as a percentage of salary	10.00%	10.00%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02)	(1.02)
Amount Apportioned to the LGDTF	8.98	8.98
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	2.20	2.20
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	1.50	1.50
Total Employer Contribution Rate to the LGDTF	12.68%	12.68%

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued:

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the Upper Thompson Sanitation District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from Upper Thompson Sanitation District were \$108,795 for the year ended December 31, 2017.

At December 31, 2017, Upper Thompson Sanitation District reported a liability of \$1,472,151 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The Upper Thompson Sanitation District proportion of the net pension liability was based on Upper Thompson Sanitation District contributions to the LGDTF for the calendar year 2017 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2017, the Upper Thompson Sanitation District proportion was .13 percent, which was approximately the same as of December 31, 2016.

For the year ended December 31, 2017, Upper Thompson Sanitation District recognized pension expense of \$196,660. At December 31, 2017, Upper Thompson Sanitation District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 92,096	\$ --
Net difference between projected and actual earnings on pension plan investments	--	286,151
Changes in assumptions	15,551	--
Total	\$ 110,735	\$ 286,151

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Amount
2018	\$ 65,674
2019	(34,554)
2020	(102,266)
2021	(104,270)
	<u>\$ (175,416)</u>

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Price inflation	2.4 percent
Real wage growth	1.1 percent
Wage inflation	3.5 percent
Salary increases, including wage inflation	3.5 - 10.45 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent

Future post-retirement benefit increases:

PERA Benefit Structure hired prior to 1/1/07 (automatic)	2.0 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued:

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.2%	4.3%
U.S. Equity – Small Cap	7.42%	4.8%
Non U.S. Equity – Developed	18.55%	5.2%
Non U.S. Equity – Emerging	5.83%	5.4%
Core Fixed Income	19.32%	1.2%
High Yield	1.38%	4.3%
Non-U.S. Fixed Income	1.84%	0.6%
Emerging Market Debt	0.46%	3.9%
Core Real Estate	8.5%	4.9%
Private Equity	8.5%	6.6%
Opportunity Fund	6.0%	3.8%
Cash	1.0%	0.2%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount rate: The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued

reaches 103 percent, at which point, the AED and SAED will each drop 0.5 percent every year until they are zero. Based on those assumptions, the LGDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

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

December 31, 2017	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 2,344,660	\$ 1,472,151	\$ 744,790

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

Employees of the Upper Thompson Sanitation District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S, as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Plan. That report can be obtained at www.copera.org/investments/pera-financial-reports.

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions, employer contributions and investment earnings.

The Upper Thompson Sanitation District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and

UPPER THOMPSON SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PERA – Continued:

authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Upper Thompson Sanitation District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for Upper Thompson Sanitation District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending December 31, 2017 and 2016, the Upper Thompson Sanitation District contributions to the HCTF were \$8,751 and \$8,174 respectively, equal to their required contributions for each year.

NOTE 5 – Risk Management:

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors and omissions, or acts of God. The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization composed of approximately 200 members created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials' liability, and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability and public officials' coverage for claims up to \$1,000,000.

NOTE 6 – Commitments and Contingencies:

Substantially all of the District's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the District expect such compliance to have, any material effect upon the capital expenditures, net income and financial condition of the District. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal and state requirements.

In 1992, the Colorado voters approved the "Taxpayer's Bill of Rights" (TABOR). TABOR requires voter approval for any new tax, tax rate increase, mill levy increase, or new debt. Voter approval is also required to increase annual property taxes, revenue, or spending by more than inflation plus a local growth factor. Spending not subject to TABOR includes that from District enterprise activities and federal funds. The District believes it is in compliance with the requirements of TABOR.

UPPER THOMPSON SANITATION DISTRICT

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contributions	Contributions Made	Covered Payroll	% of Covered Payroll
2017	\$ 108,795	\$ 108,795	\$ 858,011	12.68%
2016	101,618	101,618	801,402	12.68%
2015	96,975	96,975	764,787	12.68%

Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

UPPER THOMPSON SANITATION DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

Year Ended December 31	Cumulative Proportion of Net Pension Liability	Cumulative Proportionate Share	Covered Payroll	% of Covered Payroll	Plan Net Position as a % of Total Pension Liability
2017	.13%	\$ 1,472,151	\$ 858,011	172%	79.4%
2016	.13%	1,818,479	801,402	227%	73.6%
2015	.13%	1,483,445	764,787	194%	76.9%

Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

UPPER THOMPSON SANITATION DISTRICT

Schedule of Revenue and Expenditures - Actual (Budgetary Basis) Compared to Budget

Year Ended December 31, 2017	Actual	Final Budget	Variance
Revenue:			
Sewer charges	\$ 3,676,016	\$ 3,890,170	\$ (214,154)
Dump fees	54,049	40,000	14,049
Access fees	16,048	16,008	40
Miscellaneous	30,526	4,000	26,526
Non-operating revenues:			
Interest income	93,075	15,000	78,075
Sale of assets	7,250	2,000	5,250
Capital contributions:			
System development fees	239,740	130,500	109,240
Permit Fees	9,900	4,500	5,400
Total Revenue and Contributions	4,126,604	4,102,178	24,426
Expenditures:			
Plant Expenses:			
Payroll:			
Salaries	352,142	337,000	(15,142)
Employee benefits	72,398	72,001	(397)
Payroll taxes	25,088	26,960	1,872
Pension contributions	111,835	46,169	(65,666)
Payroll expenses	5,405	5,490	85
Total Payroll - Plant	566,868	487,620	(79,248)
Operations:			
Clothing and uniforms	2,155	2,250	95
Chemicals	82,403	146,300	63,897
Maintenance and repair	116,504	146,200	29,696
Lab chemicals and supplies	15,493	20,000	4,507
Consulting	21,534	28,000	6,466
Garbage	8,148	7,800	(348)
Eagle Rock reimbursements	8,664	5,000	(3,664)
Plant tools	250	500	250
Sludge hauling	57,563	55,000	(2,563)
Total Operations - Plant	312,714	411,050	98,336

Continued on next page.

UPPER THOMPSON SANITATION DISTRICT

Schedule of Revenue and Expenditures - Actual (Budgetary Basis) Compared to Budget - Continued

Year Ended December 31, 2017	Actual	Final Budget	Variance
Expenditures - Continued:			
Plant Expenses - Continued			
Other:			
Cell phones	\$ 2,321	\$ 2,382	\$ 61
Dues and subscriptions	115	855	740
Safety	1,370	2,000	630
Janitorial	3,253	4,733	1,480
Meals	1,649	1,500	(149)
Computer repair and maintenance	-	-	-
Software maintenance	1,184	2,650	1,466
Staff development	2,144	6,175	4,031
Travel	-	-	-
Telephone	1,457	1,612	155
Office supplies	1,513	2,400	887
Security	286	650	364
Postage	2,990	3,000	10
Vehicle and truck	4,371	5,600	1,229
Utilities	141,162	162,121	20,959
Miscellaneous	-	-	-
Total Other - Plant	163,815	195,678	31,863
Lines Operation:			
Payroll:			
Salaries	246,956	255,000	8,044
Employee benefits	47,513	48,918	1,405
Payroll taxes	18,032	20,400	2,368
Pension contributions	98,928	34,935	(63,993)
Payroll expenses	4,003	4,138	135
Cell phone allowance	2,540	2,640	100
Total Payroll - Lines	417,972	366,031	(51,941)
Operations:			
Clothing and uniforms	2,127	2,875	748
Maintenance and repair	30,330	34,000	3,670
Supplies and tools	7,811	8,125	314
Mapping	6,760	13,000	6,240
Physicals	630	500	(130)
Locate services	4,037	3,200	(837)
Total Operations - Lines	51,695	61,700	10,005

Continued on next page.

UPPER THOMPSON SANITATION DISTRICT

Schedule of Revenue and Expenditures - Actual (Budgetary Basis) Compared to Budget - Continued

Year Ended December 31, 2017	Actual	Final Budget	Variance
Expenditures - Continued:			
Lines Operation - Continued:			
Other:			
Building maintenance/repair	\$ 6,775	\$ 20,000	\$ 13,225
Software maintenance	1,689	2,100	411
Telephone	582	649	67
Meals	1,063	500	(563)
Utilities	3,206	3,350	144
Office supplies	778	1,000	222
Cell phones	436	1,610	1,174
Postage	-	-	-
Permits and licenses	-	-	-
Security	102	500	398
Janitorial	996	490	(506)
Safety	1,532	3,500	1,968
Miscellaneous	-	-	-
Staff development	655	3,600	2,945
Vehicle and truck expense	18,619	20,450	1,831
Total Other - Lines	36,433	57,749	21,316
General Administration:			
Payroll:			
Salaries	283,946	281,500	(2,446)
Bonus	7,634	7,500	(134)
Employee benefits	47,913	48,324	411
Payroll taxes	23,192	22,520	(672)
Pension contributions	103,044	138,565	35,521
Payroll expenses	4,464	4,798	334
Total Payroll - Administration	470,193	503,207	33,014

Continued on next page.

UPPER THOMPSON SANITATION DISTRICT

Schedule of Revenue and Expenditures - Actual (Budgetary Basis) Compared to Budget - Continued

Year Ended December 31, 2017	Actual	Final Budget	Variance
Expenditures - Continued:			
General Administration - Continued:			
Other:			
Board of Directors	\$ 5,177	\$ 8,850	\$ 3,673
Internet	2,066	2,880	814
Miscellaneous	1,002	400	(602)
Office supplies	8,573	12,137	3,564
Cell phones	1,765	1,764	(1)
Contingency	5,129	60,000	54,871
District functions	6,355	7,100	745
Building maintenance and repair	10,111	15,500	5,389
Equipment maintenance and repair	2,405	3,950	1,545
Computer Repair/Maintenance	-	2,000	2,000
Software maintenance	4,197	7,440	3,243
Publications	2,317	2,500	183
Public outreach	3,517	3,000	(517)
Postage and delivery	5,068	7,400	2,332
Printing	-	3,000	3,000
Insurance - workers comp	16,984	20,000	3,016
Insurance - property and liability	33,623	45,000	11,377
Meals and food	2,059	3,500	1,441
Legal filings	128	110	(18)
Travel	925	4,500	3,575
Telephone	4,876	5,728	852
Safety	587	1,000	413
Security	1,712	875	(837)
Janitorial	5,069	5,300	231
Utilities	4,542	6,640	2,098
Legal fees	13,817	45,000	31,183
Tech support	21,928	26,000	4,072
New employee hiring	370	600	230
Accounting	810	6,000	5,190
Audit	18,700	22,000	3,300
Professional services expense	27,122	45,000	17,878
Property acquisition	36,890	-	(36,890)
Permits and licenses	7,486	10,000	2,514
Vehicle and truck expense	1,077	1,950	873
Employee alcohol and drug testing	-	500	500
Staff development	4,017	10,200	6,183
Engineering services	90,666	295,000	204,334
Website	694	200	(494)
Environmental services	651	750	99
Banking and credit card fees	520	1,516	996
Dues and subscriptions	7,780	9,815	2,035
Total Administration - Other	360,715	705,105	344,390

UPPER THOMPSON SANITATION DISTRICT

Schedule of Revenue and Expenditures - Actual (Budgetary Basis) Compared to Budget - Continued

Year Ended December 31, 2017	Actual	Final Budget	Variance
Expenditures - Continued:			
General Administration - Continued:			
Capital Outlay:			
Permanent sewer lines	\$ -	\$ -	\$ -
Office equipment	-	-	-
Software	20,925	24,720	3,795
Plant equipment	48,573	49,020	447
Vehicle purchase/improvements	150,000	150,000	-
Capital contingency	7,882	100,000	92,118
Lines equipment	4,943	5,000	57
Lines improvement	230,179	1,791,600	1,561,421
Total Capital Outlay	462,502	2,120,340	1,657,838
Total Expenditures	2,842,907	4,908,480	2,065,573
NET INCOME - BUDGET BASIS	\$ 1,283,697	\$ (806,302)	\$ 2,089,999
Reconciliation of Net Income - Budget Basis to Net Income - GAAP Basis:			
Capital Outlay	397,795		
Depreciation Expense	(883,337)		
Net Income - GAAP Basis	\$ 798,155		