

**GREATROCK NORTH WATER AND
SANITATION DISTRICT
Adams County, Colorado**

**FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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July 31, 2018

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Greatrock North Water and Sanitation District (District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Greatrock North Water and Sanitation District, as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through VII presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relate 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
June 6, 2018

**GREATROCK NORTH WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

Our discussion and analysis of Greatrock North Water and Sanitation District's (District) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the District's basic financial statements which begin on page 1.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Fund Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The *Statement of Net Position* presents information on all of the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two reported as net position. This statement provides useful information regarding the financial position of the District. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall financial position of the District.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* reports the changes that have occurred during the year to the District's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The *Statement of Cash Flows*, as its name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from capital financing activities, 3) cash flows from noncapital financing activities, and 4) cash flows from investing activities.

FINANCIAL SUMMARY AND ANALYSIS

Net Position

As noted earlier, net position may serve as a useful indicator of the District's financial position. As noted in the table below, the District's assets plus deferred outflows of resources exceed liabilities plus deferred inflows of resources in 2017, 2016 and 2015 by \$4.35 million, \$4.31 million and \$4.13 million respectively. Current assets increased by \$2,175,882 or 93% from 2016 to 2017. The main increase was cash and cash equivalents, which increased \$2,007,771 due the issuance of the Series 2017 Bonds. Additionally, property taxes receivable increased by \$156,951 due to a 15% increase in the District assessed valuation and a 4.577 increase in the mill levy for taxes levied for 2018 collection. Current assets increased by \$197,500 or 9% from 2015 to 2016. The main increase was in cash and cash equivalents, which increased by \$176,623 due to a positive change in net position. Additionally, property taxes receivable, which increased \$17,344 due to a 3% increase in the District assessed valuation for taxes levied for 2017 collection.

**GREATROCK NORTH WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

Total liabilities increased \$1,946,075 from 2016 to 2017, primarily due to net increase in outstanding bonds of \$2,000,923 due to the issuance of \$4,730,000 the 2017 bonds and the payment of \$2,970,000 of the 2007 bonds and a net decrease in accounts and retainage payable of \$46,337 related to the pump station capital project in 2016. Total liabilities decreased \$108,254 from 2015 to 2016, primarily due to \$190,000 of principal payments made on the outstanding bonds offset by a net increase in accounts and retainage payable of \$89,509 related to the pump station capital project in 2016.

NET POSITION

	December 31,		
	2017	2016	2015
ASSETS			
Current assets	\$4,505,671	\$2,329,789	\$2,132,289
Capital assets, net	7,626,850	7,664,724	7,753,286
Other assets, net	37,628	33,176	35,344
Total assets	<u>12,170,149</u>	<u>10,027,689</u>	<u>9,920,919</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	129,881	129,354	150,066
Total deferred outflows of resources	<u>129,881</u>	<u>129,354</u>	<u>150,066</u>
LIABILITIES			
Current liabilities	82,618	137,466	48,613
Noncurrent liabilities	7,106,713	5,105,790	5,302,897
Total liabilities	<u>7,189,331</u>	<u>5,243,256</u>	<u>5,351,510</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	765,208	608,257	590,913
Total deferred inflows of resources	<u>765,208</u>	<u>608,257</u>	<u>590,913</u>
NET POSITION			
Net investment in capital assets	2,687,648	2,721,437	2,635,799
Restricted	20,000	19,200	16,700
Unrestricted	1,637,843	1,564,893	1,476,063
Total net position	<u>\$4,345,491</u>	<u>\$4,305,530</u>	<u>\$4,128,562</u>

Changes in Net Position

As noted in the table below, the District's net position increased from 2016 to 2017 by \$39,961. Charges for services increased by \$16,694, or 4%, from 2016 to 2017. This increase was due to higher water usage revenue as water usage increased from 42,342,913 gallons in 2016 to 43,236,803 in 2017. The other revenues for the District remained consistent from 2016 to 2017. The District's net position increased from 2015 to 2016 by \$176,968. Charges for services increased by \$34,218, or 8%, from 2016 to 2017. This increase was due to higher water usage revenue as water usage increased from 39,023,287 gallons in 2015 to 42,342,913 in 2016. The other revenues for the District remained consistent from 2015 to 2016. Expenses overall increased \$213,056 or 22% from 2016 to 2017. The fluctuation is primarily due to \$12,203 increase in legal expense due to work related to the issuance of the 2017 bonds and an \$175,175

**GREATROCK NORTH WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

increase in bond issuance costs offset by \$36,197 decrease in water rights development. Expenses overall decreased \$84,096 or 8% from 2015 to 2016. The fluctuation is primarily due

to \$39,443 decrease in maintenance and repairs expense due to locating and exercising of curb stops in 2016, \$16,470 decrease in concentrate disposal and \$31,493 decrease in water rights development.

CHANGES IN NET POSITION

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES			
Program revenues:			
Charges for services	\$ 481,343	\$ 464,649	\$ 430,431
Available of service fee	8,868	13,475	14,980
Irrigation lease	7,500	7,500	7,500
Inspection fees	15,095	7,306	5,626
Inclusion fees	17,000	3,368	-
Grants	-	-	-
Miscellaneous	7,616	3,182	6,023
General revenues:			
Property taxes	608,257	590,549	511,545
Specific ownership taxes	58,574	48,701	44,266
Investment earnings	18,753	8,227	2,748
Total revenues	<u>1,223,006</u>	<u>1,146,957</u>	<u>1,023,119</u>
EXPENSES			
Water and sewer operations	572,721	552,381	611,585
Interest and related charges	425,891	255,674	261,906
Administration	184,433	161,934	180,594
Total expenses	<u>1,183,045</u>	<u>969,989</u>	<u>1,054,085</u>
CHANGE IN NET POSITION	39,961	176,968	(30,966)
NET POSITION - BEGINNING OF YEAR	<u>4,305,530</u>	<u>4,128,562</u>	<u>4,159,528</u>
NET POSITION - END OF YEAR	<u><u>\$4,345,491</u></u>	<u><u>\$4,305,530</u></u>	<u><u>\$4,128,562</u></u>

BUDGETARY HIGHLIGHTS

The total actual expenditures for 2017 were \$400,039 under the amended budgeted expenditures of \$6,734,155. Maintenance and repair expenses were \$269,102 under budget, water rights development was \$83,329 under budget. The District amended its budget to appropriate funds for the issuance of the 2017 G.O. Refunding and Improvement Bonds.

**GREATROCK NORTH WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets at December 31, 2017, 2016 and 2015, amounted to \$7.63 million, \$7.66 million and \$7.75 million (net of accumulated depreciation), respectively. This investment in capital assets includes water distribution infrastructure, water rights, easements, land, and on-going capital projects.

The analysis of changes in capital assets is as follows:

	<u>December 31, 2015</u>	<u>Change</u>	<u>December 31, 2016</u>	<u>Change</u>	<u>December 31, 2017</u>
Land	\$ 94,243	\$ -	\$ 94,243	\$ -	\$ 94,243
Water rights	980,105	-	980,105	-	980,105
Easements	152,989	-	152,989	-	152,989
Construction in progress	23,238	132,529	155,767	(155,767)	-
Water distribution system	8,843,643	-	8,843,643	338,984	9,182,627
	<u>10,094,218</u>	<u>132,529</u>	<u>10,226,747</u>	<u>183,217</u>	<u>10,409,964</u>
Accumulated depreciation	<u>(2,340,932)</u>	<u>(221,091)</u>	<u>(2,562,023)</u>	<u>(221,091)</u>	<u>(2,783,114)</u>
Total capital assets, net	<u>\$7,753,286</u>	<u>\$ (88,562)</u>	<u>\$7,664,724</u>	<u>\$ (37,874)</u>	<u>\$7,626,850</u>

In 2017 and 2016, the District additions were for construction related to the new pump station. Additional information regarding the District's capital assets can be found in Note 4.

Debt Administration

During 2010, the District issued Series 2010 General Obligation Refunding and Improvement Bonds in the amount of \$2,230,000. The Series 2010 bonds were issued to refund \$1,175,000 of the 2007 General Obligation Refunding and Improvement Bonds and to have proceeds available for additional capital projects. During 2017, the District issued Series 2017 General Obligation Refunding and Improvement Bonds in the amount of \$4,730,000. The Series 2017 bonds were issued to refund \$2,830,000 of the 2007 General Obligation Refunding and Improvement Bonds and to have proceeds available for additional capital projects. In 2017 and 2016, the District made the required principal payments on the outstanding bonds.

**GREATROCK NORTH WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

The analysis of changes in long-term obligations is as follows:

	December 31, 2015	Change	December 31, 2016	Change	December 31, 2017
General Obligation Refunding and					
Improvement Bonds, Series 2007	\$ 3,105,000	\$ (135,000)	\$ 2,970,000	\$ (2,970,000)	\$ -
Improvement Bonds, Series 2010	2,125,000	(55,000)	2,070,000	(55,000)	2,015,000
Improvement Bonds, Series 2017	-	-			4,730,000
Less deferred amounts:					
2007 issue discount	(7,129)	-	(6,604)	6,604	-
2010 issue premium	80,026	(7,632)	72,394	(7,633)	64,761
2017 issue premium	-	-	-	296,952	296,952
Total long-term obligations	<u>\$ 5,302,897</u>	<u>\$ (197,632)</u>	<u>\$ 5,105,790</u>	<u>\$ (2,729,077)</u>	<u>\$ 7,106,713</u>

Additional information regarding the District's long-term debt can be found in Note 5.

ECONOMIC FACTORS NEXT YEAR'S BUDGET AND RATES

For 2018, the District's property tax revenue is expected to increase by 25.8% due to higher assessed valuation and a 4.577 increase in the mill levy for the District's 2018 tax collections.

Total budgeted revenues for 2018 are \$1,291,957. Total appropriated expenditures for 2018 are \$3,284,972.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Greatrock North Water and Sanitation District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Manager, Lisa Johnson at Special District Management Services, 141 Union Blvd, Suite 150, Lakewood, CO 80228.

BASIC FINANCIAL STATEMENTS

GREATROCK NORTH WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,658,650	\$ 1,651,915
Cash and cash equivalents - restricted	2,004,311	3,275
Accounts receivable:		
Customers	49,205	45,998
County treasurer	4,774	3,481
Other	6,025	-
Property taxes receivable	765,208	608,257
Prepaid expense	17,498	16,863
Total current assets	4,505,671	2,329,789
CAPITAL ASSETS		
Capital assets, not being depreciated	1,227,337	1,383,104
Capital assets, being depreciated	9,182,627	8,843,643
	10,409,964	10,226,747
Less accumulated depreciation and amortization	(2,783,114)	(2,562,023)
Total capital assets	7,626,850	7,664,724
OTHER ASSETS		
Prepaid bond insurance, net	37,628	33,176
Total other assets	37,628	33,176
Total assets	12,170,149	10,027,689
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding, net	129,881	129,354
Total deferred outflows of resources	129,881	129,354
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,300,030	\$ 10,157,043
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 58,314	\$ 111,036
Retainage payable	-	6,385
Interest payable	23,454	19,195
Deposits	850	850
Total current liabilities	82,618	137,466
NONCURRENT LIABILITIES		
Bonds payable		
Due within one year	120,000	195,000
Due in more than one year	6,986,713	4,910,790
Total noncurrent liabilities	7,106,713	5,105,790
Total liabilities	7,189,331	5,243,256
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	765,208	608,257
Total deferred inflows of resources	765,208	608,257
NET POSITION		
Net investment in capital assets	2,687,648	2,721,437
Restricted for emergencies	20,000	19,200
Unrestricted	1,637,843	1,564,893
Total net position	4,345,491	4,305,530
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 12,300,030	\$ 10,157,043

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

GREATROCK NORTH WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Service charges - Greatrock	\$ 172,582	\$ 195,822
Service charges - Rockinghorse Farms	126,516	109,224
Service charges - Box Elder	182,245	159,603
Available of service fees	8,868	13,475
Irrigation lease revenue	7,500	7,500
Inspection fees	15,095	7,306
Inclusion fees	17,000	3,368
Miscellaneous	7,616	3,182
Total operating revenue	<u>537,422</u>	<u>499,480</u>
OPERATING EXPENSES		
General and administration		
Accounting	18,852	18,307
District management	45,870	38,622
Audit	6,651	8,207
Director fees	5,000	4,000
Payroll taxes	505	444
Utility billing	23,913	16,719
Insurance	18,065	18,359
Legal	47,291	35,088
Website development	1,324	643
Elections	81	1,261
Miscellaneous	7,748	11,423
Operations		
Depreciation	221,091	221,091
Engineering	79,967	36,819
Utilities	46,172	48,077
Testing and reporting	6,419	5,013
Plant supplies	6,064	4,205
Meter reading	8,640	10,005
Rules and regulations	1,633	1,820
GIS	6,206	19,252
Maintenance and repair	103,768	94,898
Operator services	51,459	49,156
Inclusions	18,631	1,295
Concentrate disposal	-	1,881
Water rights development	22,671	58,869
Total operating expenses	<u>748,021</u>	<u>705,454</u>
OPERATING LOSS	<u>(210,599)</u>	<u>(205,974)</u>
NONOPERATING REVENUE AND (EXPENSES)		
Property taxes	608,257	590,549
Specific ownership taxes	58,574	48,701
Net investment income	18,753	8,227
County treasurer's fees	(9,133)	(8,861)
Bond interest expense	(248,199)	(251,157)
Bond insurance cost amortization	(2,167)	(2,167)
Arbitrage compliance	-	(2,000)
Paying agent fees	(350)	(350)
Bond issuance costs	(175,175)	-
Total nonoperating revenue (expense)	<u>250,560</u>	<u>382,942</u>
CHANGE IN NET POSITION	39,961	176,968
NET POSITION - BEGINNING OF YEAR	<u>4,305,530</u>	<u>4,128,562</u>
NET POSITION - END OF YEAR	<u>\$ 4,345,491</u>	<u>\$ 4,305,530</u>

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

GREATROCK NORTH WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 526,599	\$ 492,697
Payments to vendors	(524,594)	(456,536)
Other operating receipts	1,591	3,182
Net cash provided by operating activities	3,596	39,343
 CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital asset purchases	(245,295)	(70,451)
Bond interest paid	(230,688)	(238,557)
Bond principal paid	(195,000)	(190,000)
Arbitrage compliance	-	(2,000)
Bond proceeds	4,730,000	-
Bond premium	296,952	-
Bond issuance costs	(175,175)	-
Bond insurance	(21,777)	-
Payment to refunding escrow	(2,830,000)	-
Net cash provided (required) by capital financing activities	1,329,017	(501,008)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and specific ownership taxes received	665,538	638,922
County treasurer's fees paid	(9,133)	(8,861)
Net cash provided by noncapital financing activities	656,405	630,061
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	18,753	8,227
Net cash provided by investing activities	18,753	8,227
 NET INCREASE IN CASH AND CASH EQUIVALENTS	2,007,771	176,623
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,655,190	1,478,567
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,662,961	\$ 1,655,190
 RECONCILIATION OF OPERATING LOSS TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (210,599)	\$ (205,974)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	221,091	221,091
Effects of changes in operating assets and liabilities:		
Accounts receivable	(9,232)	(3,601)
Prepaid expenses	(635)	396
Accounts payable	2,971	27,431
Net cash provided by operating activities	\$ 3,596	\$ 39,343

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

GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Greatrock North Water and Sanitation District (District), was organized on May 27, 1998, as a quasi-municipal corporation and political subdivision of the State of Colorado, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Adams County, Colorado. The District's purpose is to provide public water services and stormwater drainage and detention to the property owners and residents of the District. The District is governed by an elected Board of Directors.

The District has no employees and all operations and administration functions are contracted.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* 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. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total

GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

For financial statement presentation purposes, the District is reported as a single enterprise fund. For budgetary purposes, the District separately budgets for specific components of this enterprise fund. These separate budgetary components of the District are the general fund, debt service fund and capital projects fund. For budgetary reporting purposes these components are combined into a single budgetary schedule.

The District amended the budget for the year ended December 31, 2017.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Accounts Receivable

Accounts receivable consist of uncollected water service revenue. Due to the District's broad powers of collection, no allowance for uncollectible water service revenue receivables has been reported.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

GREATROCK NORTH WATER AND SANITATION DISTRICT
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Depreciation and amortization expense has been computed using the straight-line method over the estimated economic useful lives:

Water distribution system	20 - 40 years
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Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

Bond Issue Costs, Original Issue Discount, Deferred Loss on Bond Refunding

Bond issuance costs are treated as a period cost and expensed in the year incurred. The deferred loss on bond refunding and bond insurance obtained at issuance of the bonds are being amortized over the life of the refunded bonds using the straight line method. The original issue discount and premium are being amortized over the life of the bonds using the effective interest method.

Reclassifications

For comparability, certain 2016 amounts have been reclassified where appropriate to conform with the 2017 financial statement presentation.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2017 and 2016 are classified in the accompanying financial statements as follows:

	2017	2016
Cash and cash equivalents - unrestricted	\$ 1,658,650	\$ 1,651,915
Cash and cash equivalents - restricted	2,004,311	3,275
	\$ 3,662,961	\$ 1,655,190

Cash deposits and investments as of December 31, 2017 and 2016 consist of the following:

	2017	2016
Cash deposits	\$ 371,734	\$ 613,357
Investments	3,291,227	1,041,833
	\$ 3,662,961	\$ 1,655,190

GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators.

Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District had cash deposits with a bank balance of \$444,534 and a carrying balance of \$371,734. At December 31, 2016, the District had cash deposits with a bank balance of \$612,863 and a carrying balance of \$613,357.

Investments

The District has not adopted a formal investment policy, however, the District follows Colorado State Statutes which specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

The local government investment pool, Colorado Local Government Liquid Asset Trust (COLOTRUST), is rated AAAM by Standard and Poor's. Information related to Standard & Poor's ratings can be obtained from Standard & Poor's.

Interest Rate Risk

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

**GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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As of December 31, 2017 and 2016, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Carrying Value</u>	
		<u>2017</u>	<u>2016</u>
Colotrust Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$3,291,227</u>	<u>\$1,041,833</u>

COLOTRUST

The District has invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreement collateralized by certain obligations of the U.S. government agencies. COLOTRUST is rated AAAM by Standard and Poor's.

Investment Valuation

Certain investments are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST at yearend for which the investment valuations were determined as follows.

COLOTRUST determines the NAV of the shares of each portfolio as of the close of business of each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. It is the goal of the Trust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from \$1.00 per share.

GREATROCK NORTH WATER AND SANITATION DISTRICT
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RESTRICTED CASH AND INVESTMENTS

At December 31, 2017 and 2016, cash and investments in the amount of \$2,004,311 and \$3,275, respectively are restricted for debt service related to the Series 2017 Improvement Bonds and Series 2010 Improvement Bonds (Note 5) and capital projects.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 94,243	\$ -	\$ -	\$ 94,243
Water rights	980,105	-	-	980,105
Easements	152,989	-	-	152,989
Construction in progress	155,767	183,217	(338,984)	-
Total capital assets, not being depreciated	<u>1,383,104</u>	<u>183,217</u>	<u>(338,984)</u>	<u>1,227,337</u>
Capital assets, being depreciated:				
Water distribution system	8,843,643	338,984	-	9,182,627
Total capital assets being depreciated	<u>8,843,643</u>	<u>338,984</u>	<u>-</u>	<u>9,182,627</u>
Less accumulated depreciation for:				
Water distribution system	(2,562,023)	(221,091)	-	(2,783,114)
Total accumulated depreciation	<u>(2,562,023)</u>	<u>(221,091)</u>	<u>-</u>	<u>(2,783,114)</u>
Total capital assets being depreciated, net	<u>6,281,620</u>	<u>117,893</u>	<u>-</u>	<u>6,399,513</u>
Total capital assets, net	<u>\$ 7,664,724</u>	<u>\$ 301,110</u>	<u>\$ (338,984)</u>	<u>\$ 7,626,850</u>

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GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

	Balance at December 31, 2015	Additions	Disposals/ Retirements	Balance at December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 94,243	\$ -	\$ -	\$ 94,243
Water rights	980,105	-	-	980,105
Easements	152,989	-	-	152,989
Construction in progress	23,238	132,529	-	155,767
Total capital assets, not being depreciated	<u>1,250,575</u>	<u>132,529</u>	<u>-</u>	<u>1,383,104</u>
Capital assets, being depreciated:				
Water distribution system	8,843,643	-	-	8,843,643
Total capital assets being depreciated	<u>8,843,643</u>	<u>-</u>	<u>-</u>	<u>8,843,643</u>
Less accumulated depreciation for:				
Water distribution system	(2,340,932)	(221,091)	-	(2,562,023)
Total accumulated depreciation	<u>(2,340,932)</u>	<u>(221,091)</u>	<u>-</u>	<u>(2,562,023)</u>
Total capital assets being depreciated, net	<u>6,502,711</u>	<u>(221,091)</u>	<u>-</u>	<u>6,281,620</u>
Total capital assets, net	<u>\$ 7,753,286</u>	<u>\$ (88,562)</u>	<u>\$ -</u>	<u>\$ 7,664,724</u>

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2017:

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Due Within One Year
General Obligation Refunding and					
Improvement Bonds, Series 2007	\$ 2,970,000	\$ -	\$ 2,970,000	\$ -	\$ -
Improvement Bonds, Series 2010	2,070,000	-	55,000	2,015,000	60,000
Improvement Bonds, Series 2017	-	4,730,000	-	4,730,000	60,000
Less deferred amounts:					
2007 issue discount	(6,604)	-	(6,604)	-	-
2010 issue premium	72,394	-	7,633	64,761	-
2017 issue premium	-	296,952	-	296,952	-
Total long-term obligations	<u>\$ 5,105,790</u>	<u>\$ 5,026,952</u>	<u>\$ 3,026,029</u>	<u>\$ 7,106,713</u>	<u>\$ 120,000</u>

**GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
General Obligation Refunding and					
Improvement Bonds, Series 2007	\$3,105,000	\$ -	\$ 135,000	\$ 2,970,000	\$ 140,000
Improvement Bonds, Series 2010	2,125,000	-	55,000	2,070,000	55,000
Less deferred amounts:					
2007 issue discount	(7,129)	-	(525)	(6,604)	-
2010 issue premium	80,026	-	7,632	72,394	-
Total long-term obligations	<u>\$5,302,897</u>	<u>\$ -</u>	<u>\$ 197,107</u>	<u>\$ 5,105,790</u>	<u>\$ 195,000</u>

General Obligation Refunding and Improvement Bonds, Series 2007

On June 21, 2007, the District authorized the issuance of General Obligation Refunding and Improvement Bonds dated June 27, 2007. The bonds refunded the outstanding Limited Tax General Obligation Bonds Series 1998 and the outstanding Subordinate Limited Tax General Obligation Bonds Series 2002 and provided funding to construct and install certain improvements to the District's water system. The bonds bear interest at rates between 4.00% and 4.49%, payable semiannually on each June 1 and December 1, commencing on December 1, 2007. The bonds are subject to mandatory sinking fund redemption commencing on December 1, 2009. The Bonds maturing on and before December 1, 2017, are not subject to redemption prior to their respective maturity dates. The Bonds maturing on and after December 1, 2022 are subject to redemption prior to maturity, at the option of the District, on December 1, 2017 at a redemption price equal to 100% together with accrued interest thereon to the date of redemption. On October 5, 2010, the District advance refunded \$1,175,000 of the principal balance of the bonds. As of December 31, 2017, all of the defeased bonds had been paid in full. The defeased bonds are not considered a liability of the District since sufficient funds were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds when due. On December 1, 2017, the District issued the General Obligation Refunding and Improvement Bonds, Series 2017 (as discussed below). Proceeds in the amount of \$2,830,000 were placed into escrow in order to redeem \$2,830,000 of the 2007 Series Bonds on December 1, 2017.

General Obligation Refunding and Improvement Bonds, Series 2010

On October 5, 2010, the District authorized the issuance of General Obligation Refunding Bonds dated December 1, 2010. The bonds partially refunded the General Obligation Refunding and Improvement Bonds Series 2007 and provided additional funding to construct and install certain improvements to the District's water system. The bonds bear interest at rates between 2.25% and 5.00%, payable semiannually on each June 1 and December 1, commencing on June 1, 2013. The bonds on and before December 1, 2020 are not subject to redemption prior to their respective maturity dates. The bonds maturing December 1, 2025 are subject to mandatory sinking fund redemption commencing on December 1, 2021 and each December thereafter. The Bonds

**GREATROCK NORTH WATER AND SANITATION DISTRICT
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maturing on and after December 1, 2025 are subject to redemption prior to maturity as a whole or in integral multiples of \$5,000, at the option of the District, on December 1, 2020 upon payment of par and accrued interest, without redemption premium.

General Obligation Refunding and Improvement Bonds, Series 2017

On November 7, 2017, the District authorized the issuance of General Obligation Refunding Bonds dated December 1, 2017. The bonds refunded the General Obligation Refunding and Improvement Bonds Series 2007 and provided additional funding to construct and install certain improvements to the District's water system. The bonds bear interest at rates between 2.00% and 5.00%, payable semiannually on each June 1 and December 1, commencing on June 1, 2018. The bonds on and before December 1, 2022 are not subject to redemption prior to their respective maturity dates. The bonds maturing December 1, 2032 are subject to mandatory sinking fund redemption commencing on December 1, 2031 and each December thereafter. The Bonds maturing on and after December 1, 2032 are subject to redemption prior to maturity as a whole or in integral multiples of \$5,000, at the option of the District, on December 1, 2020 upon payment of par and accrued interest, without redemption premium.

Information regarding the present value gain and the decrease in total new debt service requirements related to the issuance of the Series 2017 Bonds was not available at the time of the issuance of the audit report.

The District's long-term obligations will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 120,000	\$ 281,444	\$ 401,444
2019	140,000	278,293	418,293
2020	145,000	273,994	418,994
2021	145,000	268,893	413,893
2022	155,000	262,394	417,394
2023-2027	945,000	1,190,470	2,135,470
2028-2032	1,210,000	925,120	2,135,120
2033-2037	1,400,000	655,218	2,055,218
2038-2042	1,710,000	338,168	2,048,168
2043-2044	775,000	39,319	814,319
	<u>\$ 6,745,000</u>	<u>\$ 4,513,313</u>	<u>\$ 11,258,313</u>

Authorized Debt

On May 5, 1998, a majority of the District's voters authorized the issuance of indebtedness in an amount not to exceed \$16,600,000 for purpose of designing, acquiring, constructing, completing and installing a complete potable and nonpotable water supply, purification, storage, transmission and distribution system. As of December 31, 2017 and 2016, the District had utilized \$8,650,000 and \$6,750,000, respectively of the total authorized debt of \$16,600,000, resulting in \$7,850,000 and \$9,850,000, respectively of authorized but unissued indebtedness. On May 5th, 2018, this authorization expired in accordance with 32-1-1101(2), C.R.S.

**GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 – INCLUSION AGREEMENTS

Homestead Heights, LLC

On November 21, 2006, the District entered into an inclusion agreement with Homestead Heights, LLC (Homestead) associated with property known as Homestead Heights, II. The agreement calls for Homestead to pay a system development fee in the amount of \$16,000 for the first fifteen units and the remaining system development fees will be due prior to the issuance of building permits. The agreement for inclusion is for approximately 56 residential lots. Homestead also agreed to post fees deposits in increments of \$10,000 as requested by the District to satisfy all District incurred costs from the start of the inclusion process to the completion of a final conveyance and acceptance agreement. Upon completion of the inclusion process, any remaining funds on deposit with the District shall be refunded to Homestead. On January 24, 2008, the District amended the inclusion fee incremental refundable deposits to \$5,000 from \$10,000. On December 5, 2007, the District filed a statement of lien on the property owned by Homestead Heights, LLC in the amount of \$240,000 for the 15 system development fees that were to be prepaid by Homestead within 30 days of the execution of the agreement. On August 20, 2008, the District and Homestead entered into the first amendment to the inclusion agreement. In the amended agreement, the District agreed to remove the \$240,000 lien placed on the property. Additionally the payment terms for the system development fees were modified such that Homestead is to remit the system development fees, at the District's then current system development fee rate, within certain periods following the issuance of building permits by the county. During 2017 and 2016 the District received \$0- system development fees related to this inclusion agreement.

Hayesmount Properties, LLC

On August 23, 2007, the District entered into an inclusion agreement with Hayesmount Properties, LLC (Hayesmount) associated with property known as Hayesmount Estates. Under the agreement, Hayesmount must pay system development fees for the first five units either within 120 days of recordation of a final plat for the Hayesmount Estates development or prior to the start of construction, whichever occurs first. The system development fees on all remaining lots shall be due and owing prior to the issuance of building permits by the County. The agreement for inclusion is for approximately 21 single-family detached lots. Hayesmount also agreed to post fees deposits in increments of \$10,000 as requested by the District to satisfy all District incurred costs from the start of the inclusion process to the completion of a final conveyance and acceptance agreement. Upon completion of the inclusion process, any remaining funds on deposit with the District shall be refunded to the Hayesmount. On January 24, 2008, the District amended the inclusion fee incremental refundable deposits to \$5,000 from \$10,000. No system development fees were received in 2017 or 2016.

Ridgeview Estates LLC

On July 24, 2008, the District entered into an inclusion agreement with Ridgeview Estates LLC (Ridgeview) associated with property known as the Ridgeview Estates Subdivision. Under the agreement, Ridgeview must provide adjudicated water rights associated with the 62.3 acre Ridgeview Estates Subdivision to the District through a Special Warranty Deed. Upon inclusion into the District, the District will provide water for 21 approximately 2.5 acre lots in the Ridgeview Estates Subdivision. Ridgeview is responsible for the construction of a single 8 inch looped water line (Water Improvements) in accordance with District specifications. Upon completion of the

GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Water Improvements, Ridgeview shall convey the Water Improvements to the District. System development fees are to be collected on an equivalent residential unit basis on the properties within the Ridgeview Estates Subdivision. Ridgeview also agreed to post a fees deposit in increments of \$5,000 as requested by the District to satisfy all District incurred costs from the start of the inclusion process to the completion of a final conveyance and acceptance agreement. Upon completion of the inclusion process, any remaining funds on deposit with the District shall be refunded to the Ridgeview. During 2017 and 2016 the District received no system development fees related to this inclusion agreement.

NOTE 7 – WATER LEASE OPTION AGREEMENT

On January 23, 2007, the District entered into a water lease option agreement with Box Elder Creek Ranch Water Company (Box Elder). The agreement grants Box Elder an option to lease a portion of its Laramie-Fox Hills aquifer ground water available for specific uses. Each year this agreement is in effect, Box Elder shall pay to the District a reservation/lease fee of \$7,500 per year, regardless of use, on or before January 10. The reservation/lease fee shall increase by the Denver-Boulder Consumer Price Index plus 1% compounded, annually. Box Elder shall also reimburse the District for a proportional amount of the energy and administrative costs incurred by the District to pump the Laramie Water to the Box Elder stream bed for Box Elder's benefit. The District waived the CPI adjustments and collected lease revenue of \$7,500 in 2017 and \$7,500 in 2016 under this agreement.

On November 4, 2010 the agreement was amended to provide for the delivery of Laramie Water to Box Elder on a rolling three year schedule and provisions related to the District's SCADA system. Box Elder may install and connect to the District's SCADA System in the future at its option. If Box Elder chooses this option, it shall be responsible for any hard and soft costs associated with the installation of the system at its pond and recharge pond.

Effective July 8, 2016, the District and Box Elder entered into an Amended and Restated Water Lease Option Agreement (Restated Agreement) which amended and restated the original agreement in its entirety. The District is entitled to withdraw an average annual amount of up to 105.2 acre-feet per year of Laramie-Fox Hills aquifer ground water. Pursuant to the Restated Agreement, the District granted to Box Elder an option to lease from the District up to 65 acre-feet of Laramie Water per year for augmentation purposes, as more particularly described in the Restated Agreement, subject to availability as determined solely by the District.

On an annual basis, Box Elder shall notify the District of the total amount of its anticipated need for the Reserved Laramie Water over a three (3) year period and the District will notify Box Elder if the amount of Reserved Laramie Water available for lease. If Box Elder chooses not to exercise its option to lease the Reserved Laramie Water, in whole or in part, then the District may lease such Reserved Laramie Water not otherwise leased to Box Elder to a third party. Any lease entered into by the District with a third party shall expire on or before March 31 of the following year. If the District determines that it does not have at least thirty (30) acre-feet of Laramie Water available to lease to Box Elder during any year for the term of the Restated Agreement, the District shall notify Box Elder of that fact and shall not be required to lease or deliver any Laramie Water to Box Elder for that year and the fee paid for that year by Box Elder shall be refunded. However, Box Elder may, at its option, accept such lesser amount of Laramie Water in which case the fee paid will not be refunded.

GREATROCK NORTH WATER AND SANITATION DISTRICT
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On or before January 10 of each year the Restated Agreement is in effect, Box Elder shall pay to the District a reservation/lease fee in the amount of \$7,500 per year, regardless of use. To account for inflation, the fee shall increase by the Denver-Boulder Consumer Price Index, plus 1% annually. In the event that Box Elder doesn't pay the fee by dates specified in the Restated Agreement, the District shall be entitled to terminate the Restated Agreement.

If Box Elder exercises its option to lease the Reserved Laramie Water, Box Elder shall also reimburse the District for a proportional amount of the operation, maintenance, administration and energy costs, including, but not limited to, labor and mileage of District employees or independent contractors, all incurred by the District to pump the Laramie Water to Box Elder.

The Restated Agreement shall be in effect until May 16, 2032; provided, however, that the Restated Agreement shall automatically renew for an additional five (5) year term unless otherwise terminated by either Party in writing at least thirty (30) days prior to the renewal date.

NOTE 8 - NET POSITION

The District's net position consists of three components – net investment in capital assets; restricted; and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and, if applicable, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017 and 2016, the District had \$2,687,648 and \$2,721,437, respectively, net investment in capital assets.

Restricted net position includes amounts that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's restricted net position consists of \$20,000 and \$19,200 as of December 31, 2017 and 2016, respectively, as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 10).

NOTE 9 - RISK MANAGEMENT

Except as provided by the Colorado Governmental Immunity Act, Section 24-10-101, et seq., C.R.S., as may be amended from time to time, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past four fiscal years.

The District pays annual premiums to the Pool for property, liability, public officials' liability, boiler and machinery, and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members.

GREATROCK NORTH WATER AND SANITATION DISTRICT
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Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors, and qualification as an Enterprise, may require judicial interpretation.

On May 5, 1998, a majority of the District's voters approved the following ballot question: Shall Greatrock North Water and Sanitation District taxes be increased \$200,000 annually in the first full fiscal year by the imposition of a mill levy on all taxable property within the boundaries of the District, which mill levy shall generate not more than said annual amount in ad valorem property tax revenues for the District in the first full fiscal year for the purposes of the operation and maintenance of the District's services and facilities; and shall the revenues generated by such taxes in each year thereafter be approved as an increased levy without regard to the tax increase limitation contained in Section 29-1-301, Colorado Revised Statutes, or any other tax increase limitation under any other law; and shall the revenue changes caused by the collection and spending of such tax revenues in every year be approved, permitting such tax revenues and any investment earnings thereon be collected and spent by the District without limitation or condition, and without limiting the collection or spending of any other revenues or funds by the District under Article X, Section 20 of the Colorado Constitution or any other law?

On May 6, 2008, a majority of the District's voters approved the following ballot question: Shall Greatrock North Water and Sanitation District be authorized to retain all revenues generated by or from rates, fees, tolls, charges, specific ownership taxes, agreements with other local governments, grants from the state or from any local government, lottery distributions, and any

GREATROCK NORTH WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

other revenues generated or received by the District, including reduction in debt service, in 1998 and in all subsequent years (which amounts does not include revenues generated from ad valorem property taxes); and shall the District be authorized to spend such revenues and investment income thereon as a voter-approved revenue change and an exception to and spending limitations which might otherwise apply?

On May 6, 2008, a majority of the District's voters approved the following ballot question: Shall Greatrock North Water and Sanitation District taxes be increased \$300,000 annually (for collection in calendar year 2008) and by the additional amounts that are raised annually thereafter by the imposition of an ad valorem property tax levy of 35 mills for the purpose of paying the District's administration, operations and maintenance and other similar expenses, and shall the revenue from such taxes and any investment income thereon together with all revenue received prior to calendar year 2008 from imposition of the District's operations mill levy and any investment income thereon be collected, retained and spent by the District in each fiscal year prior to, through and including 2008 and thereafter as a voter-approved revenue changes without regard to any spending, revenue-raising, or other limitation contained within Articles X, Section 20 of the Colorado Constitution, the limits imposed on increased in property taxation by Section 29-1-301, C.R.S in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

NOTE 11 - ESTIMATED CLOSURE COSTS

The District utilizes two evaporation ponds (impoundments) as part of its water treatment waste management. The impoundments are classified as Type B and subject to the requirements of the Hazardous Material and Waste Management Division's (Division) *Regulations Pertaining to Solid Waste Sites and Facilities* (the Regulations). Section 9.3.4 (F) and Section 1.8 of the Regulations requires the District to estimate the closure costs if the impoundments owned and used by the District were to be closed.

The District's engineer has provided an estimate of the closure costs based on the closure plan presented in the *Engineering, Design, and Operation Plan dated May 2013, Revision 2* submitted to the Division in May 2013. The closure plan follows a clean-in-place closure thereby eliminating the need for environmental covenant and post-closure care and costs. The closure costs were gathered from suppliers, contractors, and an internal database of historical project costs for the area. The estimates include the cost of engineering oversight, soil disposal, testing, liner removal and disposal, site grading, seeding, piping abandonment, erosion control as well as a contingency. As of December 31, 2017, the estimated closure costs for the impoundments are \$366,281. As of the date of the audit report, the District has no plans or intentions nor has it been ordered to close the impoundments, therefore, no liability has been recorded on the financial statements of the District in connection with the estimated costs.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**GREATROCK NORTH WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2017**

	<u>Budgeted Amounts</u> <u>Original</u>	<u>Budgeted Amounts</u> <u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Property taxes	\$ 608,257	\$ 608,257	\$ 608,257	\$ -
Specific ownership taxes	47,995	47,995	58,574	10,579
Service charges - Greatrock	161,593	161,593	172,582	10,989
Service charges - Rocking Horse	116,897	116,897	126,516	9,619
Service charges - Box Elder	165,499	165,499	182,245	16,746
Available of service fees	12,380	12,380	8,868	(3,512)
Irrigation lease revenue	7,500	7,500	7,500	-
Net investment income	5,983	5,983	18,753	12,770
Inspection fees	-	-	15,095	15,095
Inclusion fees	-	-	17,000	17,000
Transfer from General Fund	154,897	154,897	157,937	3,040
Transfer from Debt Service Fund	-	2,000,000	2,000,000	-
Miscellaneous	-	-	7,616	7,616
Bond proceeds	-	4,770,000	4,730,000	(40,000)
Bond premium	-	299,567	296,952	(2,615)
Total Revenues	<u>1,281,001</u>	<u>8,350,568</u>	<u>8,407,895</u>	<u>57,327</u>
EXPENDITURES				
Administration and operations:				
Accounting	20,460	23,220	18,852	4,368
District management	57,000	65,450	44,763	20,687
Project management	4,000	3,920	1,107	2,813
Water rights development	79,500	106,000	22,671	83,329
Audit	7,500	7,500	6,651	849
Director fees	6,000	6,000	5,000	1,000
Utility billing	19,200	19,200	23,913	(4,713)
Insurance	18,800	18,118	18,065	53
Legal	59,750	59,750	47,291	12,459
Website development	400	1,000	1,324	(324)
Elections	-	10,000	81	9,919
Miscellaneous	14,000	14,000	7,748	6,252
Engineering	47,000	50,717	79,967	(29,250)
Utilities	40,800	35,000	46,172	(11,172)
Testing and reporting	7,000	7,000	6,419	581
Plant supplies	6,000	8,000	6,064	1,936
Meter reading	10,285	8,500	8,640	(140)
Rules and regulations	1,000	1,000	1,633	(633)
GIS	15,000	15,000	6,206	8,794
Maintenance and repair	380,863	372,870	103,768	269,102
Concentrate disposal	5,000	5,000	-	5,000
Operator services	53,770	54,084	51,459	2,625
Inclusions	-	-	18,631	(18,631)
Payroll taxes	450	450	505	(55)
County treasurer's fees	5,520	5,363	5,526	(163)
Water meters	5,400	5,400	-	5,400
Transfer to Debt Service Fund	154,897	160,000	157,937	2,063
Transfer to Capital Projects Fund	-	2,000,000	2,000,000	-
Emergency reserve	25,620	24,073	-	24,073

(Continued)

**GREATROCK NORTH WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2017**

(Continued)

	<u>Budgeted Amounts</u>	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Debt Service:				
Paying agent fees	500	500	350	150
Legal	500	500	-	500
2007 GO Bonds principal	140,000	140,000	140,000	-
2007 GO Bonds interest	130,487	130,487	134,884	(4,397)
2010 GO Bonds principal	55,000	55,000	55,000	-
2010 GO Bonds interest	99,850	99,850	99,713	137
Bond issuance costs	-	175,175	175,175	-
Bond insurance costs	-	22,981	21,777	1,204
Payment to refunding escrow	-	2,830,000	2,830,000	-
County treasurer's fees	3,604	3,607	3,607	-
Contingency	492	500	-	500
Capital Outlay:				
Greatrock North pump station	-	188,940	183,217	5,723
Total expenditures	<u>1,475,648</u>	<u>6,734,155</u>	<u>6,334,116</u>	<u>400,039</u>
REVENUES OVER (UNDER) EXPENDITURES	(194,647)	1,616,413	2,073,779	457,366
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>1,265,299</u>	<u>1,265,299</u>	<u>1,584,066</u>	<u>318,767</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 1,070,652</u>	<u>\$ 2,881,712</u>	<u>\$ 3,657,845</u>	<u>\$ 776,133</u>

Funds available are computed as follows:

Current assets	\$ 4,505,671
Current liabilities	(82,618)
Deferred inflows of resources	(765,208)
	<u>\$ 3,657,845</u>

**GREATROCK NORTH WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2017**

Revenue (budgetary basis)	\$ 8,407,895
Transfer from General Fund	(157,937)
Transfer from Debt Service Fund	(2,000,000)
Bond proceeds	(4,730,000)
Bond premium	<u>(296,952)</u>
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>1,223,006</u>
 Expenditures (budgetary basis)	 6,334,116
Depreciation	221,091
Capital outlay	(183,217)
Transfer to Debt Service Fund	(157,937)
Transfer to Capital Projects Fund	(2,000,000)
Bond principal payment	(195,000)
Bond insurance costs	(21,777)
Payment to refunding escrow	(2,830,000)
Bond insurance cost amortization	2,167
Original issue discount/premium amortization	(7,109)
Deferred loss on refunding amortization	<u>20,711</u>
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>1,183,045</u>
 Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position	 <u><u>\$ 39,961</u></u>

OTHER INFORMATION

**GREATROCK NORTH WATER AND SANITATION DISTRICT
HISTORY OF DISTRICT'S ASSESSED VALUATION AND MILL LEVIES
Year Ended December 31, 2017
(UNAUDITED)**

Levy/Collection Year	Assessed Valuation	Percent Increase	Mill Levy		
			General	Debt	Total
2012/2013	\$ 11,217,880	-	27.000	18.500	45.500
2013/2014	\$ 10,900,660	-2.83%	28.340	18.500	46.840
2014/2015	\$ 10,921,110	0.19%	28.340	18.500	46.840
2015/2016	\$ 12,615,550	15.51%	28.340	18.500	46.840
2016/2017	\$ 12,985,840	2.93%	28.340	18.500	46.840
2017/2018	\$ 14,882,390	14.60%	24.167	27.250	51.417

Sources: State of Colorado, Colorado Department of Local Affairs, Division of Property Taxation, 2012-2016 State of Colorado Property Tax Annual Reports and the Adams County Assessor's Office

**GREATROCK NORTH WATER AND SANITATION DISTRICT
HISTORY OF PROPERTY TAX COLLECTIONS
Year Ended December 31, 2017
(UNAUDITED)**

Levy/Collection Year	Taxes Levied	Taxes Collected (1)	Tax Collections as Percent of Tax Levied
2011/2012	\$ 511,025	\$ 511,539	100.10%
2012/2013	\$ 510,414	\$ 509,506	99.82%
2013/2014	\$ 510,587	\$ 511,135	100.11%
2014/2015	\$ 511,545	\$ 511,545	100.00%
2015/2016	\$ 590,913	\$ 590,549	99.94%
2016/2017	\$ 608,257	\$ 608,257	100.00%
2017/2018	\$ 765,208	\$ 423,954 (2)	55.40%

(1) Figures do not include treasurer's fees, abatements or interest payable on abatements.

(2) Collections through April 30, 2018

**GREATROCK NORTH WATER AND SANITATION DISTRICT
2017 ASSESSED AND ACTUAL VALUATION OF CLASSES OF
PROPERTY IN THE DISTRICT
Year Ended December 31, 2017
(UNAUDITED)**

<u>Class</u>	<u>Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>"Actual" Valuation</u>	<u>Percent of "Actual" Valuation</u>
Residential	\$ 13,775,490	92.56%	\$ 191,326,250	98.08%
Vacant Land	794,990	5.34%	2,741,345	1.41%
Personal Property	271,440	1.82%	936,000	0.48%
Oil and Gas	35,000	0.24%	40,000	0.02%
Agricultural	5,320	0.04%	18,345	0.01%
State Assessed	150	0.00%	517	0.00%
Total	<u>\$ 14,882,390</u>	<u>100.00%</u>	<u>\$ 195,062,457</u>	<u>100.00%</u>

Source: Adam's County Assessor's Office

**GREATROCK NORTH WATER AND SANITATION DISTRICT
LARGEST TAXPAYERS WITHIN THE DISTRICT
Year Ended December 31, 2017
(UNAUDITED)**

<u>Name</u>	<u>2017 Assessed Valuation (1)</u>	<u>Percent of Total Assessed Valuation (1)</u>
New Vision Development Partners	\$ 157,100	1.06%
Front Range Pipeline Company LLC	144,580	0.97%
Homestead Heights LLC	84,160	0.57%
Brienza LLC	62,840	0.42%
Diana E Christensen et al	58,520	0.39%
Kerr McGee Gathering LLC	51,180	0.34%
Individual homeowner	50,750	0.34%
Individual homeowner	49,150	0.33%
Jeffrey Homes Inc	47,130	0.32%
BPH Construction Corp	47,130	0.32%
Total	<u>\$ 752,540</u>	<u>5.06%</u>

(1) Based on District 2017 assessed valuation of \$14,882,390.

Source: Adam's County Assessor's Office

GREATROCK NORTH WATER AND SANITATION DISTRICT
DISTRICT HISTORICAL DEBT RATIOS
Year Ended December 31, 2017
(UNAUDITED)

	Fiscal Year Ended December 31,					
	2012	2013	2014	2015	2016	2017
General Obligation Debt Outstanding	\$ 5,460,000	\$ 5,435,000	\$ 5,410,000	\$ 5,230,000	\$ 5,040,000	\$ 6,745,000
Esimtated Population	1,050	1,050	1,050	1,050	1,050	1,050
Debt Per Capita	\$ 5,200	\$ 5,176	\$ 5,152	\$ 4,981	\$ 4,800	\$ 6,424
District Assessed Value	\$ 11,217,880	\$ 10,900,660	\$ 10,921,110	\$ 12,615,550	\$ 12,985,840	\$ 14,882,390
Ratio of Debt to Assessed Value	48.67%	49.86%	49.54%	41.46%	38.81%	45.32%
Personal Income Per Capita (Adams County)	\$ 33,558	\$ 33,850	\$ 35,704	\$ 36,962	\$ 38,378	unavailable
Ratio of Debt Per Capita to Personal Income Per Capita (Adams County)	15.50%	15.29%	14.43%	13.48%	12.51%	unavailable

Sources: Adams County Assessor's Office, State of Colorado, Division of Property Taxation, Regional Economics Information System Bureau of Economic Analysis; the State Division of Local Governments and the District