

North Pecos Water & Sanitation District

Annual Financial Report

December 31, 2017 and 2016

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June 27, 2018

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**Haynie &
Company**

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Independent Auditor's Report

Members of the Board of Directors
North Pecos Water & Sanitation District
Adams County, Colorado

We have audited the accompanying financial statements of the business-type activities of North Pecos Water & Sanitation District (the "District") as of and for the years ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements of the District as of December 31, 2016, were audited by other auditors whose report dated April 21, 2017, expressed an unmodified opinion on those 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of North Pecos Water & Sanitation District, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Pecos Water & Sanitation District's financial statements as a whole. The other supplementary information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



Littleton, Colorado
June 13, 2018

North Pecos Water & Sanitation District Management Discussion and Analysis

The discussion and analysis is designed to provide an analysis of the North Pecos Water & Sanitation District's (the District) financial condition and operating results and to inform the reader on the District's financial issues and activities.

The Management Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

Financial Highlights

- The financial statements show total assets of \$11,364,333 and total liabilities of \$130,898.
- In the statement of net position, the assets of the District exceeded its liabilities by \$11,233,435, which is an increase of \$1,344,681. \$5,116,423 or approximately 54% of this amount may be used to meet the District's ongoing obligations to customers and creditors.
- The District's total assets increased by \$1,353,294. Most of this increase was attributable to increases in cash and investments and capital assets.
- The District's total liabilities increased by \$8,613 during the current fiscal year, due primarily to increased accounts.

Overview of the Financial Statements

The financial statements of the District are presented as a special purpose government engaged in business type activities – providing water and sewer services.

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

The *Statements of Revenues, Expenses and Changes in Net Position* present information which reflects how the District's net position changed during the past year. 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. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, noncapital financing, capital financing and investing activities.

These financial statements distinguish functions of the District that will be principally supported by user fees, developer contributions and tap fees. The functions of the District include effective and

economical operation of water and wastewater sewer systems within the jurisdictional boundaries of the District. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The district-wide financial statements include only the District itself.

The District adopts an annual appropriated budget to recognize the fiscal impact of operations, non-operating revenues and contributions. A budgetary comparison statement has been provided to demonstrate compliance with this requirement.

The basic financial statements of the District can be found on pages 1 – 3 of this report, and the notes to the financial statements can be found on pages 4 – 16 of this report.

Financial Analysis of the District's Funds – Three Years

NET POSITION			
December 31,	2017	2016	2015
ASSETS			
Current assets	\$ 5,247,321	\$ 4,602,003	\$ 4,824,543
Capital assets, net	<u>6,117,012</u>	<u>5,409,036</u>	<u>4,967,235</u>
Total assets	<u>11,364,333</u>	<u>10,011,039</u>	<u>9,791,778</u>
LIABILITIES			
Current liabilities	<u>130,898</u>	<u>122,285</u>	<u>493,824</u>
Total liabilities	<u>130,898</u>	<u>122,285</u>	<u>493,824</u>
NET POSITION			
Net investment in capital assets	6,117,012	5,409,036	4,967,235
Unrestricted	<u>5,116,423</u>	<u>4,479,718</u>	<u>4,330,719</u>
	<u>\$ 11,233,435</u>	<u>\$ 9,888,754</u>	<u>\$ 9,297,954</u>
CHANGE IN NET POSITION			
	2017	2016	2015
Income from water operations	\$ 178,022	\$ 101,051	\$ 130,365
Income from sewer operations	38,116	188,000	(256,714)
General and administrative expenses	(344,460)	(327,603)	(333,075)
Net nonoperating revenues and expenses	<u>1,473,003</u>	<u>629,352</u>	<u>653,604</u>
NET INCOME (LOSS)	1,344,681	590,800	194,180
NET POSITION BEGINNING OF YEAR	<u>9,888,754</u>	<u>9,297,954</u>	<u>9,103,774</u>
NET POSITION END OF YEAR	<u>\$ 11,233,435</u>	<u>\$ 9,888,754</u>	<u>\$ 9,297,954</u>

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its business type activities as of December 31, 2017 amounts to \$6,117,012 (net of accumulated depreciation). This investment in capital assets includes water and sewer line systems, office furniture and equipment, land and buildings. The total increase in the District's investment in capital assets for the current fiscal year was 13% percent, due mainly to contributed capital assets

Debt. The District has no debt obligation as of December 31, 2017.

Request for Information

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

Basic Financial Statements

North Pecos Water & Sanitation District
Statements of Net Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 357,934	\$ 239,616
Investments	4,789,274	4,264,527
Accounts receivable - service fees	100,113	97,860
Total Current Assets	5,247,321	4,602,003
Capital Assets		
Not Being Depreciated		
Land	108,204	108,204
Buildings	307,600	307,600
Water system	6,546,913	5,689,544
Sewer system	2,746,238	2,683,618
Furniture and equipment	322,837	322,837
Total Capital Assets	10,031,792	9,111,803
Less accumulated depreciation	(3,914,780)	(3,702,767)
Net Capital Assets	6,117,012	5,409,036
Total Assets	\$11,364,333	\$10,011,039
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 109,288	\$ 99,065
Accrued liabilities	21,610	23,220
Total Liabilities	130,898	122,285
Net Position		
Net investment in capital assets	6,117,012	5,409,036
Unrestricted	5,116,423	4,479,718
Total Net Position	11,233,435	9,888,754
Total Liabilities and Net Position	\$11,364,333	\$10,011,039

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

North Pecos Water & Sanitation District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Water Operations		
Operating revenue		
Service fees	\$ 1,125,505	\$ 976,756
Operating expenses		
Purchased water	702,405	653,397
Maintenance	28,797	29,196
Wages and related costs	78,277	71,664
Depreciation	138,004	121,448
Total Water Operating Expenses	947,483	875,705
Operating Income From Water Operations	178,022	101,051
Sewer Operations		
Operating revenue		
Service fees	660,911	677,063
Operating expenses		
Sewage treatment fees	466,735	363,793
Maintenance	25,238	8,132
Wages and related costs	78,277	71,664
Depreciation	52,545	45,474
Total Sewer Operating Expenses	622,795	489,063
Operating Income From Sewer Operations	38,116	188,000
General and Administrative Expenses		
Wages and related costs	197,023	184,377
Directors' fees and expenses	6,400	5,600
Legal	33,000	30,000
Accounting	23,500	23,000
Telephone and utilities	11,502	11,725
General office expenses	38,332	36,368
Insurance	13,239	12,232
Other expenses	-	178
Depreciation	21,464	24,123
Total General and Administrative Expenses	344,460	327,603
Income (Loss) From Operations	(128,322)	(38,552)

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

Nonoperating Revenue		
Net investment income	24,746	21,285
Tap initiation fees	526,577	250,357
Permit and plan review income	1,372	4,076
Gain (loss) on disposal of assets	-	(47,044)
Miscellaneous income	10,653	4,157
Total Nonoperating Revenue	<u>563,348</u>	<u>232,831</u>
Gain (Loss) Before Contributions	<u>435,026</u>	<u>194,279</u>
Contributed Lines	<u>909,655</u>	<u>396,521</u>
Change in Net Position	1,344,681	590,800
Net Position—Beginning of Year	<u>9,888,754</u>	<u>9,297,954</u>
Net Position—End of Year	<u><u>\$11,233,435</u></u>	<u><u>\$ 9,888,754</u></u>

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

North Pecos Water & Sanitation District
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Received from customers	\$ 1,784,163	\$ 1,645,210
Paid to vendors	(1,338,925)	(1,545,160)
Paid to employees	(355,187)	(327,705)
Net Cash From Operating Activities	90,051	(227,655)
Cash Flows from Non-capital Financing Activities:		
Other nonoperating revenues	12,025	4,517
Cash Flows from Capital and Related Financing Activities:		
Tap fees and line extension fees collected	526,577	250,357
Payments for property and equipment	(10,334)	(292,068)
Proceeds from sale of assets	-	8,699
Net Cash From Capital and Related Financing Activities	516,243	(33,012)
Cash Flows from Investing Activities:		
Proceeds from investments sold	-	190,000
Purchases of investments	(524,747)	-
Interest received	24,746	3,717
Net Cash from Investing Activities	(500,001)	193,717
Net Change in Cash and Cash Equivalents	118,318	(62,433)
Cash and Cash Equivalents—Beginning of Year	239,616	302,049
Cash and Cash Equivalents—End of Year	\$ 357,934	\$ 239,616
Reconciliation of Net Operating Income to		
Net Cash From Operating Activities:		
Net operating income (loss)	\$ (128,322)	\$ (38,552)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	212,013	191,045
Changes in assets and liabilities:		
Accounts receivable - service fees	(2,253)	(8,609)
Accrued liabilities	(1,610)	(129)
Accounts payable	10,223	(371,410)
Total Adjustments	218,373	(189,103)
Net Cash From Operating Activities	\$ 90,051	\$ (227,655)

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

North Pecos Water & Sanitation District

Notes to Financial Statements

December 31, 2017 and 2016

1. Definition of Reporting Entity

North Pecos Water & Sanitation District, (District) is a special district created under the laws of the State of Colorado to provide water and sanitation services to its customers. The District's service area is located in Adams County and Denver County. The District buys all of its water from the Denver Board of Water Commissioners. The District's sewage is transported to and treated by Metro Wastewater Reclamation District. Since the major part of its income is derived from user charges, the District is classified and accounted for as an "Enterprise Fund". Because of the self-supporting nature of the District, its accounting is on the accrual basis much like a private, profit-making business. However, unlike a private business, the District is not subject to federal and state income taxes.

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.

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 exercised in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets. System development fees and contributed lines received are recorded as capital contributions when received.

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the 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.

Capital Assets

The District's property and equipment are carried at cost in the case of outright purchases or construction. In the case of property contributed by sub-dividers or customers, such as water and sewer lines, the asset is recorded at an estimated fair market value at the date of contribution as determined by the District's consulting engineers.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

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

Interest costs incurred during the construction phase are capitalized as incurred.

Accounts Receivable

The District does not provide a reserve for estimated uncollectible accounts for water and sewer services since such accounts are negligible. The District policy regarding delinquent accounts is to place a lien against the real estate and not provide water or sewer services until back charges are paid. A security deposit from customers also helps to ensure collection.

Property Taxes

The District did not certify a property tax mill levy for collection in 2017 and 2016.

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Budget and Budgetary Accounting

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end. Contributions of water and/or sewer lines are not reflected as a budgetary revenue or expenditure as they do not generate or require the use of funds available.

Operations

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

System Development Fees

System development revenue represents tap fees. These fees are recorded as contributions and combined with contributed lines (see below) on the Statements of Revenue, Expenses and Changes in Net Position.

Contributed Lines

Contributed lines represent contributions for plant and equipment acquired by the District primarily through donations by customers, developers and sub-dividers. These contributions are in the form of water and sewer lines installed and paid for by others and deeded over to the District and meter package charges paid by customers of the District.

Cash and Cash Equivalents

The District considers cash deposits and highly liquid investments with an intended maturity of three months or less to be cash equivalents.

Investments

The District's policy is to account for investments at fair market value and report them in accordance with GASB. Gains or losses on the sale of investments are recognized when the investment is sold.

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The net asset amount is also adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments. All other net positions are reported as unrestricted.

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

Management Estimates

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

Reclassifications

Certain prior year amounts have been adjusted to conform to the current year presentation. These reclassifications did not have an impact on the District's change in net position.

3. Cash, Cash Equivalents and Investments

Cash deposits and investments are reflected on the December 31 Statements of Net Position as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 357,934	\$ 239,616
Investments	<u>4,789,274</u>	<u>4,264,527</u>
Total	<u>\$ 5,147,208</u>	<u>\$ 4,504,143</u>

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 the aggregate uninsured deposits.

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

The State Regulatory Commissions for banks and financial institutions 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 and 2016, the District's cash deposits had a bank balance and a carrying balance as follows:

	2017		2016	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Deposits with financial institutions	\$ 357,534	\$ 415,716	\$ 239,216	\$ 239,216
Petty cash	400	-	400	-
	<u>\$ 357,934</u>	<u>\$ 415,716</u>	<u>\$ 239,616</u>	<u>\$ 239,216</u>

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

The District's cash deposits are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes deposits not covered by depository insurance and uncollateralized. Category 2 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution. Category 3 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

	2017	2016
Insured deposits	\$ 415,716	\$ 239,616
Category 1	400	400
Category 2	4,789,274	4,264,527
Total cash and investments	<u>\$ 5,205,390</u>	<u>\$ 4,504,543</u>

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

Investments

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

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

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

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities, bankers' acceptances of certain banks,
- commercial paper,
- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has one recurring fair value measurement for bond mutual funds of \$3,534,632 and \$3,519,893 as of December 31, 2017 and 2016, respectively. These securities are measured using Level 1 inputs.

Investment Risks

The District is not subject to significant concentration, interest rate, foreign currency or custodial credit risk. The bond mutual funds are rated AAAM by Morningstar and have an average maturity of one to five years.

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

As of December 31, 2017 and 2016, the District had the following investments:

2017

Type of Investment	Maturity	Fair Value
Money market	N/A	\$ 13
Local government investment pool	N/A	1,254,629
Bond mutual fund	One to five years	<u>3,534,632</u>
Total Investments		<u>\$ 4,789,274</u>

2016

Type of Investment	Maturity	Fair Value
Money market	N/A	\$ 13
Local government investment pool	N/A	744,621
Bond mutual fund	One to five years	<u>3,519,893</u>
Total Investments		<u>\$ 4,264,527</u>

COLOTRUST

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

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

4. Capital Assets

An analysis of the changes in net capital asset for the years ended December 31, 2017 and 2016 follows:

	Balance December 31, 2016	Additions	Transfers	Retirements	Balance December 31, 2017
Capital assets, not being depreciated:					
Land	\$ 108,204	\$ -	\$ -	\$ -	\$ 108,204
Total capital assets, not being depreciated	<u>108,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,204</u>
Capital assets, being depreciated:					
Building	307,600	-	-	-	307,600
Water system	5,689,544	857,369	-	-	6,546,913
Sewer system	2,683,618	62,620	-	-	2,746,238
Equipment	<u>322,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,837</u>
Total capital assets, being depreciated	<u>9,003,599</u>	<u>919,989</u>	<u>-</u>	<u>-</u>	<u>9,923,588</u>
Less accumulated depreciation for:					
Building	(218,358)	(7,495)	-	-	(225,853)
Water system	(2,072,574)	(138,000)	-	-	(2,210,574)
Sewer system	(1,116,736)	(52,544)	-	-	(1,169,280)
Equipment	<u>(295,099)</u>	<u>(13,974)</u>	<u>-</u>	<u>-</u>	<u>(309,073)</u>
Total accumulated depreciation	<u>(3,702,767)</u>	<u>(212,013)</u>	<u>-</u>	<u>-</u>	<u>(3,914,780)</u>
Total capital assets, being depreciated, net	<u>5,300,832</u>	<u>707,976</u>	<u>-</u>	<u>-</u>	<u>6,008,808</u>
Capital assets, net	<u>\$ 5,409,036</u>	<u>\$ 707,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,117,012</u>

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

4. Capital Assets (continued)

	Balance December 31, 2015	Additions	Transfers	Retirements	Balance December 31, 2016
Capital assets, not being depreciated:					
Land	\$ 108,204	\$ -	\$ -	\$ -	\$ 108,204
Construction in progress	<u>55,743</u>	<u>-</u>	<u>(55,743)</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>163,947</u>	<u>-</u>	<u>(55,743)</u>	<u>-</u>	<u>108,204</u>
Capital assets, being depreciated:					
Building	307,600	-	-	-	307,600
Water system	5,372,989	316,555	-	-	5,689,544
Sewer system	2,324,027	359,591	-	-	2,683,618
Equipment	<u>346,173</u>	<u>12,443</u>	<u>-</u>	<u>(35,779)</u>	<u>322,837</u>
Total capital assets, being depreciated	<u>8,350,789</u>	<u>688,589</u>	<u>-</u>	<u>(35,779)</u>	<u>9,003,599</u>
Less accumulated depreciation for:					
Building	(210,843)	(7,515)	-	-	(218,358)
Water system	(1,951,125)	(121,449)	-	-	(2,072,574)
Sewer system	(1,071,262)	(45,474)	-	-	(1,116,736)
Equipment	<u>(314,271)</u>	<u>(16,607)</u>	<u>-</u>	<u>35,779</u>	<u>(295,099)</u>
Total accumulated depreciation	<u>(3,547,501)</u>	<u>(191,045)</u>	<u>-</u>	<u>35,779</u>	<u>(3,702,767)</u>
Total capital assets, being depreciated, net	<u>4,803,288</u>	<u>497,544</u>	<u>-</u>	<u>-</u>	<u>5,300,832</u>
Capital assets, net	<u>\$ 4,967,235</u>	<u>\$ 497,544</u>	<u>\$ (55,743)</u>	<u>\$ -</u>	<u>\$ 5,409,036</u>

5. Contracts, Commitments and Contingencies

Water Service Contract

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

Sewage Treatment Contract

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

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

6. Net Position

The District has net position consisting of two components — net investment in capital assets and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation. The District had no outstanding debt as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the District had net investment in capital assets of \$6,117,012 and \$5,409,036, respectively.

Restricted net position include net assets 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 had no restricted net position as of December 31, 2017 and 2016.

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets or restricted.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are considered expended.

7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance for all risks of loss.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2017 and 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from the prior year.

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

North Pecos Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2017 and 2016

7. Risk Management (continued)

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

8. Employees' Retirement Plan

The District has implemented a SIMPLE IRA (Savings Incentive Match Plan for Employees) administered by American Century for the full-time employees of the District. The District may make contributions up to 3% of the eligible employees' annual salaries. Employees were allowed to contribute up to \$12,500 per year of their compensation in 2017 and 2016. The employees' contributions amounted to \$15,406 and \$15,307 for 2017 and 2016, respectively. District contributions amounted to \$7,617 and \$6,944 for 2017 and 2016, respectively. At December 31, 2017 and 2016, no amounts were due to the plan.

9. 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 which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for the exclusion.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions.

Revenue in excess of the Fiscal Year spending limit must be refunded unless the voters approve retention of such revenue.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise will require judicial interpretation.

Supplementary Information

North Pecos Water & Sanitation District
Schedule of Revenues, Expenditures and Changes in Funds
Available Compared to Budget - Budgetary Basis
For the Year Ended December 31, 2017

	Original and Final Budgeted Amounts	2017 Actual	Variance with Final Budget Positive (Negative)
Revenues			
Water service fees	\$ 1,100,000	\$ 1,125,505	\$ 25,505
Sewer service fees	760,000	660,911	(99,089)
Net investment income	2,000	24,746	22,746
Other	3,500	12,025	8,525
Tap initiation fees	558,724	526,577	(32,147)
Total Revenues	\$ 2,424,224	\$ 2,349,764	\$ (74,460)
Expenditures			
Purchase water	\$ 707,324	\$ 702,405	4,919
Sewage treatment fees	362,109	466,735	(104,626)
Maintenance	65,000	54,035	10,965
Wages and related costs	387,500	353,577	33,923
Directors' fees and expenses	8,000	6,400	1,600
Legal	35,000	33,000	2,000
Accounting	25,000	23,500	1,500
Engineering	10,000	-	10,000
Telephone and utilities	12,000	11,502	498
Office and shop expenses	20,600	38,332	(17,732)
Insurance	17,000	13,239	3,761
Capital expenditures	500,000	10,334	489,666
Contingency	100,000	-	100,000
Total Expenditures	\$ 2,249,533	\$ 1,713,059	\$ 536,474
Excess of Revenues over Expenditures	\$ 174,691	\$ 636,705	\$ (610,934)

North Pecos Water & Sanitation District
Reconciliation of Budgetary Basis Actual to
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

Revenue (Budgetary Basis)	\$ 2,349,764
Contributed lines	909,655
Revenue (GAAP basis)	<u>\$ 3,259,419</u>
Expenditures (Budgetary Basis)	\$ 1,713,059
Depreciation	212,013
Capital outlay	(10,334)
Expenses (GAAP basis)	<u>\$ 1,914,738</u>
Change in Net Position Per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>\$ 1,344,681</u>