TOWN OF RYE

RYE, COLORADO

BASIC FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

AND CERTAIN SUPPLEMENTAL INFORMATION

December 31, 2017

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Garren, Ross & DeNardo, Inc.

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Independent Auditor's Report

January 10, 2019

Board of Trustees
Town of Rye
Rye, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rye (the Town) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rye, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the year 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, budgetary comparison, and pension information 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 management's discussion and analysis and pension 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. The budgetary comparison information for the general fund has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Town of Rye's basic financial statements. The budgetary comparisons for the proprietary funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Barren, Ross & DeNardo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Town of Rye
Management's Discussion and Analysis
Year Ended December 31, 2017

This discussion and analysis of the Town of Rye's financial performance provides an overview of the Town's financial activities for the year ended December 31, 2017. Please read this discussion and analysis together with the financial statements, the notes to financial statements and the supplementary information provided.

This annual financial report consists of a series of financial statements. The Statement of Net Position (page 8) and the Statement of Activities (page 9) provide information about the activities of the Town as a whole and presents a broader picture of the Town's finances. The fund financial statements start at page 10. These statements present how the services were financed in the short term as well as what remains for future operations. Fund financial statements also report the Town's operations in more detail by displaying the individual fund activities.

These two statements (Statement of Net Position and Statement of Activities) report the Town's net position and changes in it. You can think of the net position, the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the net position is one indicator of whether its financial health is improving or deteriorating. Assessment of other non-financial factors should also be considered to assess the health of the Town, such as changes in the Town's property tax base, conditions of its roads, and water quality and availability.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental Activities – This includes the general administration, recreational programs, and the roads maintenance services.

- Business-type Activities – The Town charges fees to customers to help cover all or most of the cost of certain services it provides. The Town's water and sewer systems are reported here and also referred to as "enterprise funds".

- **Governmental Funds** --- The Town's basic services are reported in a governmental fund which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. This fund is reported using the current financial resources measurement focus and modified accrual accounting, so as to measure cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

- **Proprietary (business-type) Funds** --- When the Town charges customers for the services it provides the services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, but provide more detail and additional information, such as cash flows.

One of the most important questions asked about the Town's finances is "Is the Town better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities present information about the Town, as a whole, and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

FINANCIAL HIGHLIGHTS

- The Town's net position did not significantly change as a result of the 2017 operations. The net position of the governmental activities decreased $10,697; the net position of the business type activities decreased by $11,126.

- The governmental activities revenues show a decrease of $5,240. The governmental activities expenses increased $5,664.

- The business-type activities revenues, increased by $25,994. The business-type activities expenses decreased by $1,084.

THE TOWN AS A WHOLE

The Town's combined net assets did not change substantially from a year ago, decreasing from $2,485,452 to $2,462,518. The analysis of the Net Position (Table 1) and Changes in Net Position (Table 2) follows:

Table 1
NET POSITION

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	$54,433	$ 53,434	$ 284,366	$ 247,560	$ 338,799	$ 300,994
Capital assets	-	-	2,640,769	2,668,753	2,640,769	2,668,753
Total assets	54,433	53,434	2,925,135	2,916,313	2,979,568	2,969,747
Deferred outflow:						
Related to pension	5,217	5,771	-	-	5,217	5,771
Current and other liabilities	8,926	385	71,968	20,751	80,894	21,136
Long-term liabilities	27,845	25,274	403,388	434,657	431,233	459,931
Total liabilities	36,771	25,659	475,356	455,408	512,127	481,067
Deferred inflows:						
Property taxes	10,140	10,140	-	-	10,140	10,140
Related to pension	-	(1,141)	-	-	-	(1,141)
Total deferred inflows	10,140	8,999	-	-	10,140	8,999
Net position:						
Net investment in capital assets	-	-	2,221,610	2,234,096	2,221,610	2,234,096
Restricted	16,866	19,728	25,000	25,000	41,866	44,728
Unrestricted	(4,127)	4,819	203,169	201,809	199,042	206,628
Total net position	$ 12,739	$ 24,547	$2,449,779	$2,460,905	$2,462,518	$2,485,452

The net position of the Town's governmental activities decreased by $10,697 (4.4%). That portion of the net position available to finance day-to-day operations (without restrictions by debt commitments or grantors) decreased by $8,946 to a negative $4,127 at the end of the year. The Town implemented GASB Statement No. 68, Employer Reporting for Pension Plans, effective for fiscal years ending December 31, 2015.

The net position of our business-type activities decreased by $11,126 (.5%). This will be reviewed in more detail in the funds sections below.

Table 2
CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services	$ -	$ -	$ 183,546	$ 205,790	$ 183,546	$ 205,790
Grants & Contributions	14,291	14,259	83,585	35,195	97,876	49,454
General Revenues:						
Property Taxes	11,153	10,345	-	-	11,153	10,345
Other Taxes	981	3,249	-	-	981	3,249
Other Revenues	271	4,083	51	203	322	4,286
Total Revenues	26,696	31,936	267,182	241,188	293,878	273,124
Program Expenses						
Administration	18,823	16,539	-	-	18,823	16,539
Public Safety	10,761	-	-	-	10,761	-
Streets and highways	7,674	15,132	-	-	7,674	15,132
Parks and recreation	135	120	-	-	135	120
Water fund	-	-	111,091	134,907	111,091	134,907
Sewer fund	-	-	167,217	144,485	167,217	144,485
Total expenses	37,393	31,791	278,308	279,392	315,701	311,183
Increase (Decrease) in Net Position	($ 10,697)	$ 145	($ 11,126)	($ 38,204)	($ 21,823)	($ 38,059)

The Town's total revenues increased by $20,754 (7.6%); expenses increased by $4,518 (1.5%). Our analysis below separately considers the operations of government and business-type activities.

Governmental Activities:

Revenues and expenses for the governmental activities remained relatively steady for 2017 as compared to 2016, slight decrease of revenue of $5,240 (1.6%) and a slight increase of expenses of $5,602 (1.8%).

Business Type Activities:

Revenues for the Town's business type activities (see Table 2) increased $25,994 (10.8%) and expenses decreased by $1,084 (.4%). All business-type activities continue to operate at a deficit, as they did for 2016.

Budgetary Highlights:

The Town's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements.

The actual revenues for the General Fund were $548 under budget, and expenditures were $7,771 over budget. While the water fund recognized revenues over budget by $80,322 and expenditures over budget by $34,907. The sewer fund was under budget for both revenues and expenses. Revenues were under budget by $9,720 and expenditures were under budget by $39,816. The general fund and the water fund expenditures being in excess of budget may be a violation of Colorado Local Government Budget Law.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Town's investment in capital assets as of December 31, 2017 amounts to $2,640,769 (net of accumulated depreciation). The assets are recognized all in the water and sewer fund. The capital assets in the general fund are all fully depreciation. During 2017 the water fund recognized $83,679 in capital assets for the construction in progress of the water treatment facility improvements.

At the end of 2017, the water fund had $419,159 in outstanding debt. The anticipated debt carryover from 2017 presents a long term debt commitment to the Colorado Water Resources and Power Development Authority.

The wastewater treatment plant improvement loan will be paid from the availability of service fees over the next 22 years. More detailed information about the Town's long-term liabilities is presented in Note 7 in the financial statements.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to report the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Clerk at The Town of Rye, 2067 Main St., P. O. Box 236, Rye, Colorado 81069.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF RYE
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 22,330	$ 203,989	$ 226,319
Restricted cash	16,066	25,000	41,066
Accounts receivable	-	2,312	2,312
Taxes receivable	10,575	-	10,575
Grant receivable	-	41,516	41,516
Prepaid expenses	5,462	4,740	10,202
Due from general fund	-	923	923
Inventories	-	5,886	5,886
Capital assets - net of depreciation	-	2,640,769	2,640,769
Total Assets	54,433	2,925,135	2,979,568
Deferred Outflow of Resources			
Related to pensions	5,217	-	5,217
Liabilities			
Current Liabilities			
Accounts payable	6,186	56,197	62,383
Accrued expenses	1,817	-	1,817
Due to proprietary fund	923	-	923
Current maturities	-	15,771	15,771
Total Current Liabilities	8,926	71,968	80,894
Non Current Liabilities			
Long term debt	-	403,388	403,388
Net pension liability	27,845	-	27,845
Total Non Current Liabilities	27,845	403,388	431,233
Total Liabilities	36,771	475,356	512,127
Deferred Inflow of Resources			
Related to property taxes	10,140	-	10,140
Net Position			
Net investment in capital assets	-	2,221,610	2,221,610
Restricted	16,866	25,000	41,866
Unrestricted	(4,127)	203,169	199,042
Total Net Position	$ 12,739	$ 2,449,779	$ 2,462,518

The accompanying notes are an integral part of this statement.

TOWN OF RYE
STATEMENT OF ACTIVITIES
YEAR ENDED December 31, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Administration	$ 18,823	$ -	$ 6,849	$ -	$ (11,974)	$ -	$ (11,974)
Public safety	10,761	-	-	-	(10,761)	-	(10,761)
Streets and highways	7,674	-	5,906	-	(1,768)	-	(1,768)
Parks and recreation	135	-	1,536	-	1,401	-	1,401
Total Governmental Activities	37,393	-	14,291	-	(23,102)	-	(23,102)
Business-Type Activities							
Water fund	111,091	117,167	-	83,585	-	89,661	89,661
Sewer fund	167,217	66,379	-	-	-	(100,838)	(100,838)
Total Business-Type Activities	278,308	183,546	-	83,585	-	(11,177)	(11,177)
Total	$ 315,701	$ 183,546	$ 14,291	$ 83,585	(23,102)	(11,177)	(34,279)
General revenues -							
Taxes-							
Property taxes					11,153	-	11,153
Specific ownership taxes and other taxes					981	-	981
Other revenues					260	-	260
Unrestricted investment earnings					11	51	62
Total General Revenues					12,405	51	12,456
Change in Net Position					(10,697)	(11,126)	(21,823)
Net Position (Restated) - January 1					23,436	2,460,905	2,484,341
Net Position - December 31					$ 12,739	$ 2,449,779	$ 2,462,518

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

TOWN OF RYE
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2017

	General Fund	Total
Assets		
Cash and cash equivalents	$ 38,396	$ 38,396
Taxes receivable	10,575	10,575
Prepaid insurance	5,462	5,462
Total Assets	$ 54,433	$ 54,433
Liabilities		
Accounts payable	$ 6,186	$ 6,186
Accrued liabilities	1,817	1,817
Due to other funds	923	923
Total Liabilities	8,926	8,926
Deferred Inflow - property taxes	10,140	10,140
Fund Balances		
Nonspendable		
Prepaid items	5,462	5,462
Restricted		
Tabor	800	800
Highway users tax fund	42	42
Conservation trust fund	16,024	16,024
Unassigned	13,039	13,039
Total Fund Balances	35,367	35,367
Total Liabilities, Deferred Inflows and Fund Balances	$ 54,433	$ 54,433

The accompanying notes are an integral part of this statement.

TOWN OF RYE
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total fund balances - governmental fund	$	35,367
Deferred activity related to pension assumptions are not recorded and included in the governmental funds.		5,217
Net pension liability is a long term liability not due and payable in the current period and therefore not reported in governmental funds.		(27,845)
Total Net Position - Governmental Activities	$	12,739

The accompanying notes are an integral part of this statement.

TOWN OF RYE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED December 31, 2017

	General Fund	Total
Revenues		
Property taxes	$ 11,153	$ 11,153
Specific ownership taxes	981	981
Franchise taxes	6,849	6,849
State sources	7,442	7,442
Investment earnings	11	11
Other	260	260
Total Revenues	26,696	26,696
Expenditures		
General government	15,668	15,668
Parks and recreation	135	135
Streets and highways	7,674	7,674
Public safety	10,761	10,761
Total Expenditures	34,238	34,238
Excess of Revenues Over (Under) Expenditures	(7,542)	(7,542)
Fund Balance - January 1	42,909	42,909
Fund Balance - December 31	$ 35,367	$ 35,367

The accompanying notes are an integral part of this statement.

TOWN OF RYE
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED December 31, 2017

Net change in fund balance - governmental fund	$	(7,542)
Net pension related items are reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported in the governmental funds.		(3,155)
Total Change in Net Position - Governmental Activities	$	(10,697)

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

TOWN OF RYE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 120,449	$ 83,540	$ 203,989
Accounts receivable, net	2,312	-	2,312
Grant receivable	41,516	-	41,516
Due from other funds	-	7,317	7,317
Prepaid expenses	2,370	2,370	4,740
Inventories	5,886	-	5,886
Total Current Assets	172,533	93,227	265,760
Noncurrent Assets			
Capital assets - net of depreciation	1,116,598	1,524,171	2,640,769
Restricted cash	25,000	-	25,000
Total Noncurrent Assets	1,141,598	1,524,171	2,665,769
Total Assets	1,314,131	1,617,398	2,931,529
Liabilities and Net Position			
Current Liabilities			
Accounts payable	53,684	2,513	56,197
Due to other funds	6,394	-	6,394
Notes payable	15,771	-	15,771
Total Current Liabilities	75,849	2,513	78,362
Noncurrent Liabilities			
Notes payable	403,388	-	403,388
Total Liabilities	479,237	2,513	481,750
Net Position			
Net investment in capital assets	697,439	1,524,171	2,221,610
Restricted	25,000	-	25,000
Unrestricted	112,455	90,714	203,169
Total Net Position	$ 834,894	$ 1,614,885	$ 2,449,779

The accompanying notes are an integral part of this statement.

TOWN OF RYE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED December 31, 2017

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for services	$ 117,167	$ 66,379	$ 183,546
Operating Expenses			
Salaries	4,402	4,072	8,474
Contract labor	22,330	-	22,330
Bad debt expense	13	-	13
Bank fees and other penalties	117	40	157
Office supplies	125	1,037	1,162
Taxes and licenses	475	-	475
Professional fees - legal	-	54,814	54,814
Insurance	302	6,330	6,632
Operating parts, materials and supplies	9,109	33,294	42,403
Repairs and maintenance	13,085	-	13,085
Utilities	8,199	1,362	9,561
Depreciation	45,395	66,268	111,663
Total Operating Expenses	103,552	167,217	270,769
Operating Income (Loss)	13,615	(100,838)	(87,223)
Nonoperating Revenues (Expenses)			
Interest income	-	51	51
Water improvement grant	83,585	-	83,585
Interest expense	(7,539)	-	(7,539)
Total Nonoperating Revenues (Expenses)	76,046	51	76,097
Change in Net Position	89,661	(100,787)	(11,126)
Total Net Position - January 1	745,233	1,715,672	2,460,905
Total Net Position - December 31	$ 834,894	$ 1,614,885	$ 2,449,779

The accompanying notes are an integral part of this statement.

TOWN OF RYE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED December 31, 2017

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Cash received from customers	$ 116,532	$ 66,379	$ 182,911
Cash paid for goods and services	(10,971)	(102,970)	(113,941)
Cash paid to employees	(27,108)	(4,072)	(31,180)
Net Cash Provided by Operating Activities	78,453	(40,663)	37,790
Cash Flows From Capital and Related Financing Activities			
Grant funding received	42,069	-	42,069
Acquisition of capital assets	(60,448)	-	(60,448)
Principal paid on notes payable	(15,498)	-	(15,498)
Interest and fees paid on notes payable	(7,539)	-	(7,539)
Net Cash Provided (Used) by Capital and Related Financing Activities	(41,416)	-	(41,416)
Cash Flows From Investing Activities			
Interest income	-	51	51
Net Increase (Decrease) in Cash and Cash Equivalents	37,037	(40,612)	(3,575)
Cash and Cash Equivalents - January 1	83,412	124,152	207,564
Cash and Cash Equivalents - December 31	$ 120,449	$ 83,540	$ 203,989
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	$ 13,615	$ (100,838)	(87,223)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	45,395	66,268	111,663
Change in assets and liabilities -			
Accounts receivable	(622)	(592)	(1,214)
Inventories	(5,386)	-	(5,386)
Prepaid expenses	(2,068)	3,408	1,340
Accounts payable and accrued expenses	27,895	(8,909)	18,986
Due to other funds	(376)	-	(376)
Net Cash Provided (Used) by Operating Activities	$ 78,453	$ (40,663)	$ 37,790

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Town of Rye (the Town) operates under the laws of the State of Colorado and is governed by a mayor and a board of trustees. The Town provides the following services: streets and highways, parks and recreation, and water and sewer sanitation services.

A. Financial Reporting Entity

As required by generally accepted accounting principles (GAAP), the accompanying financial statements present the Town (the primary government) and includes, if applicable, component units in its financial statements based upon financial accountability. Since no component unit meets the criteria for inclusion, no component unit financial statements have been included.

B. Government-wide Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The government-wide financial statements, which include the statement of net position and the statement of activities, report information on all the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for support.

The government-wide statement of activities reflect both the direct expenses and net cost of each function of the Town's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipient for the goods and services offered by the program. Grants and contributions that are restricted to meeting the operational and capital requirements of a particular program are included in operating grants and contributions, or capital grants and contributions. Revenues, which are not classified as program revenues, are presented as general revenues of the Town with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each government function or business segment is self-financing or draws from the general revenues of the Town.

Separate fund financial statements are provided for the governmental fund and proprietary funds. The major individual governmental fund and major individual enterprise funds are reported in separate columns in the fund financial statements.

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fund financial statements for the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for the which they are levied, while grants and similar items are recognized as revenue as soon as all eligibility requirements have been satisfied.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the Town considers revenues to be available if collected within 60 days from the end of the fiscal year. Expenditures generally are recorded when a liability is incurred as is the case with accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due. General capital asset acquisitions are reported as expenditures in governmental funds, while issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, specific ownership taxes, franchise taxes, interest and charges for services are considered revenues susceptible to accrual. Specific ownership taxes collected and held by the County of Pueblo at year end on behalf of the Town are also recognized as revenue. Contributions and miscellaneous revenues are recorded as revenues when received in cash because they are not generally measurable until received at the time. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used for guidance. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and other grant requirements have been met, including the availability criteria. Entitlements and shared revenues are recorded at the time of receipt or earlier if the accrual criteria are met.

Business-type activities are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net position. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operation. The principal operating revenues of the Town's water utility and sewer utility funds are charges to customers for sales and services. Operating expenses for the 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.

The Town reports the following major government fund:

The general fund is the primary operating fund of the Town and is always classified as a major fund. The general fund is used to account for all financial resources that are not accounted for in other funds. Major revenue sources include property taxes, specific ownership taxes, franchise taxes, intergovernmental revenues, and investment revenues. Primary expenditures include general administration, lottery, and streets and highways.

The Town reports the following major proprietary funds:

Water Fund - The water fund is used to account for the operations of the Town's water services.

Sewer Fund - The sewer fund is used to account for the operations of the Town's sewer sanitation services.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets and Liabilities

1. Deposits and Investments

The Town considers cash and cash equivalents to be cash on hand and interest and non-interest bearing demand deposits.

For the purposes of the statement of cash flows the Town considers cash and cash equivalents to be cash on hand, demand deposits and all highly liquid investments with original maturities of three months or less so as to minimize the risk of value changes.

2. Property Taxes

Property taxes are assessed on property located within the Town's boundaries in accordance with Colorado law. The taxes are assessed, allocated and collected by the Pueblo County Treasurer. Taxes assessed in the current year are generally collected in the following year and thus, the property tax receivable is offset by deferred inflows of resources.

3. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds. In the fund financial statement, these receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet and statement of net position.

4. Inventories and Prepaid Items

Inventory in the water fund consists of consumable supplies held for consumption. Consumable supply inventories are reported at the lower of cost or fair value and cost is determined using the first-in, first-out method.

Prepaid items/expenses represent payments made for expenditures/expenses to be charged to a future accounting period.

5. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, equipment, and construction in progress are reported in the applicable governmental or business-type activities column of the government-wide financial statements. The Town has not adopted a capitalization policy.

All reported capital assets are depreciated, except for land and land improvements. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, systems and improvements	7 - 40 years
Equipment	3 - 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The Town has one item related to the pension.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one item, property taxes. This item is deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Long-term Obligations

In the government-wide financial statements and the fund financial statements for the proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the governmental fund financial statements, debt premium and discounts, as well as debt issue costs, are recognized during the current period. The face amount of the debt issue, along with the related discount or premium, if any, is reported as other financing sources while debt issue costs are reported as debt service expenditures.

8. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

An annual budget and appropriation ordinance is adopted by the Board of Trustees in accordance with Colorado State Budget Act. The budget is prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Budgets are established for all funds. Formal budgetary accounting is employed as a management control device during the year to monitor the individual departments. The fund level is the level of classification at which expenditures may not legally exceed appropriations. Revisions that alter the total expenditures of any fund must be approved by the Board of Trustees. All annual appropriations lapse at year end. The Town does not recognize encumbrances.

B. Expenditures in Excess of Budget Amounts

During 2017 two funds had expenditures which exceeded budgeted amounts, which may be a violation of Colorado Local Government Budget Law.

	Actual	Budget	Excess
General Fund	$ 34,238	$ 26,467	$ (7,771)
Water Fund	$ 164,873	$ 129,966	$ (34,907)

Note 2 - Stewardship, Compliance, and Accountability (Continued)

C. Tax, Spending, and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the Amendment. However, the Town has made certain interpretations of the Amendment's language in order to determine its compliance.

D. Commitments and Contingencies

The loan with Colorado Water Resources and Power Development Authority discussed in Note 7 contains a covenant whereby the Town is obligated to establish charge rates for the water and sewer funds such that the related revenues exceed the operating costs (total costs less interest and depreciation) by 110% of the annual debt service on the loan.

Note 3 - Cash Deposits and Investments

Deposits

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits.

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk parallels Colorado statutes.

A summary of cash and deposits held at year-end follows:

Cash and Deposits	Carrying Amounts	Less Than One Year	Less Than Five Years
Deposits:			
Cash on deposit with County Treasurer	$ 136	$ 136	$ -
Demand deposits	267,249	267,249	-
Total	$ 267,385	$ 267,385	$ -

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government agency securities, certain bonds of political subdivisions, bankers' acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

Note 3 - Cash Deposits and Investments (Continued)

Investments (Continued)
Interest Rate Risk - The Town's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates parallels Colorado statutes. Specifically all securities are limited to a maximum maturity of five years from date of purchase unless the governing body authorizes a longer period.

Credit Risk - The Town does not have a policy which would further limit its investment choices beyond the requirements of Colorado statutes.

Note 4 - Receivables

Accounts receivable at December 31, 2017 consist of the following:

	Governmental	Proprietary Funds		
	Activities	Water Fund	Sewer Fund	Total
Taxes receivable	$ 10,575	$ -	$ -	$ 10,575
Trade receivable	-	2,312	-	2,312
Grant receivable	-	41,516	-	41,516
Total Receivables	$ 10,575	$ 43,828	$ -	$ 54,403

Note 5 - Interfund Transactions

Due to/from Other funds:
The Town reports interfund balances between some of its funds. Balances result from the time lag between the dates when interfund goods or services are provided, transactions are recorded in the accounting system and the payments between funds are made. Interfund balances are generally expected to be repaid within one year of the financial statement date.

The following interfund receivables and payables are included in the fund financial statements:

	Due From Other Funds	Due to Other Funds
General Fund	$ -	$ 923
Proprietary Funds		
Water Fund	-	6,394
Sewer Fund	7,317	-
Totals	$ 7,317	$ 7,317

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

Governmental Activities	Balances January 1	Additions	Deletions	Balances December 31
Depreciable Assets				
Machinery and equipment	$ 14,797	$ -	$ -	$ 14,797
Less Accumulated Depreciation				
Machinery and equipment	14,797	-	-	14,797
Total Capital Assets, Net	$ -	$ -	$ -	$ -

Proprietary Funds	Balances January 1	Additions	Deletions	Balances December 31
Non Depreciable Assets				
Land	$ 2,177	$ -	$ -	$ 2,177
Water rights	2,609	-	-	2,609
Assets in progress	41,185	83,679	-	124,864
Total Non Depreciable Assets	45,971	83,679	-	129,650
Depreciable Assets				
Water treatment plant	949,643	-	-	949,643
Machinery and equipment	265,790	-	-	265,790
Pipeline	1,988,049	-	-	1,988,049
Water Tanks / Water Lines	276,457	-	-	276,457
Total Depreciable Assets	3,479,939	-	-	3,479,939
Less Accumulated Depreciation				
Water treatment plant	199,180	31,655	-	230,835
Machinery and equipment	133,625	5,417	-	139,042
Pipeline	397,610	66,268	-	463,878
Water Tanks / Water Lines	126,742	8,323	-	135,065
Total Accumulated Depreciation	857,157	111,663	-	968,820
Total Capital Assets, Net	$ 2,668,753	$ (27,984)	$ -	$ 2,640,769

Depreciation expense was charged to the following proprietary funds as follows:

Proprietary Funds:	
Water Fund	$ 45,395
Sewer Fund	66,268
Total Proprietary Funds	$ 111,663

At December 31, 2017, the Town's water fund had one project in progress related to the improvements to the water treatment plant.

Note 7 - Long-Term Debt

The following is a summary of the Town's long-term debt transactions for the year ended December 31, 2017:

	Debt Outstanding January 1	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31	Due Within One Year
Proprietary Funds:					
Notes payable:					
Water Fund	$ 434,657	$ -	$ 15,498	$ 419,159	$ 15,771

Debt outstanding as of December 31, 2017, consisted of the following:

Proprietary Funds	
Notes payable	
$1,040,000 note payable to Colorado Water Resources and Power Development Authority, interest rate of 1.75%, due in semi-annual installments including interest $23,037 through August 2039, collateralized by service revenues of the water fund.	$ 419,159

The annual requirements to retire proprietary funds long-term debt as of December 31, 2017 are as follows:

	Notes Payable		
Year Ending December 31	Principal	Interest	Total
2018	$ 15,771	$ 7,266	$ 23,037
2019	16,048	6,989	23,037
2020	16,330	6,707	23,037
2021	16,617	6,420	23,037
2022	16,909	6,128	23,037
2023 - 2027	89,109	26,077	115,186
2028 - 2032	97,221	17,965	115,186
2033 - 2037	106,070	9,116	115,186
2038 - 2039	45,084	994	46,078
	$ 419,159	$ 87,662	$ 506,821

Note 8 - Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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

Note 8 - Defined Benefit Pension Plan (Continued)

General Information about the Pension Plan

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

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

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

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

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

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

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula show above considering a minimum 20 years of service credit, if deemed disabled.

Note 8 - Defined Benefit Pension Plan (Continued)

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will received the benefits.

Contributions: Eligible employees and the Town of Rye are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-402, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	Rates
Employer Contribution Rate	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208 (1)(f)	(1.02)%
Amount apportioned to LGDTF	8.98%
Amortization Equalization Disbursement (AED as specified in C.R.S. § 24-51-411	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	1.50%
Total Employer Contribution Rate to the LGDTF	**12.68%**

Rates are expressed as percentage of salary as defined in C.R.S. § 24-51-101(42)

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the Town of Rye is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTS from the Town of Rye were $1,601 for the year ended December 31, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 the Town of Rye reported a liability of $27,845 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016. The Town of Rye's proportion of the net pension liability was based on the Town of Rye's contributions to the LGDTF for the calendar year 2016 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2016, the Town of Rye's proportion was .0019797892 percent, which was a decrease of .0003145331 from its proportion measured as of December 31, 2105.

For the year ended December 31, 2017, the Town of Rye recognized pension expense of $3,155. At December 31, 2017 the Town of Rye reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

Note 8 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	2	-
Net difference between projected and actual earnings on pension plan investments	3	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	3,497	-
Contributions subsequent to the measurement date	1,715	-
Total	$ 5,217	$ -

$1,715 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
2018	$ 2,437
2019	2,437
2020	343
2021	-
	$ 5,217

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs.

Actuarial cost method	Entry age
Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increase, including wage inflation	3.90% - 10.85%
Long-term investment rate of return, net of pension plan investment expense, including price inflation	7.50%
Discount rate	7.50%
Post-retirement benefit increases:	
PERA benefit structure hired before January 1, 2007;	2.00%
PERA benefit structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Note 8 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 21, 2015 to December 31, 2016.

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 10.45%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07;	2.00%
PERA benefit structure hired after 12/31/06 (Ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Note 8 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumption changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

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

As of November 18, 2016 adoption of the current long-term expected rate of return by th PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table.

Note 8 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Asset Class	Target Allocation	30 year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.5%.

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

Note 8 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine that total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use the municipal bond index rate, and therefore, the discount rate was 7.50 percent, 0.25 percent higher compared to the current measurement date.

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

	1% Decrease (6.25%)	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Proportionate share of the net pension liability	$ 39,418	$ 27,845	$ 16,230

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

Note 9 - Fund Balances

Government-wide Net Position:
Government-wide net position is divided into three components:

- Invested in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of net position that is restricted by the Town's creditors (for example, through debt covenants), by state enabling legislation (through restricts on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

The Town presents fund balances in clearly defined categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

- *Committed fund balance* - The portion of fund balance constrained for a specific purpose according to limitations imposed by the Town's highest level of decision making authority, Board of Trustees, prior to the end of the current year. The constraint may be removed or changed only through formal action of the Board of Trustees.

- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Trustees or other individuals authorized to assign funds to be used for a specific purpose.

- *Unassigned fund balance* - The residual portion of fund balance for the general fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is the Town's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order; committed, assigned and unassigned.

Restricted net position represents net position whose uses are subject to constraints that are either (1) legally imposed by creditors (such as debt covenants), grantors, or laws or regulations of other governments, or (2) imposed through constitutional provisions or enabling legislation. Restricted net position is as follows:

	Governmental Activities	Proprietary Funds
Tabor / emergencies	$ 800	$ -
Highway user tax fund	42	-
Conservation trust fund	16,024	-
Debt service	-	25,000
Total Restricted	$ 16,866	$ 25,000

Note 10 - Conservation Trust Fund

The Town receives conservation trust money that may be used for the acquisition, development and maintenance of publicly used recreational sites. The following is a recap of the 2017 conservation trust activity:

Beginning CTF cash balance	$	14,618
Current year funding received		1,536
Current year expenditures		(135)
Interest earned		5
Restricted CTF Cash Balance at 12/31/2017	$	16,024

The conservation trust fund revenue and expenditures are reported in the general fund. Conservation trust funds are maintained in a separate bank account and are restricted for conservation trust fund expenditures.

Note 11 - Restatement of Net Position

For the year ended December 31, 2017 the Town adopted the standards of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions. As a result, net position at December 31, 2016 was required to be restated to reflect the cumulative effect of adopting the standard. Certain balances of deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2016 were not available and have not been reported in the financial statements.

A summary of the change to net position follows:

		Governmental Activities
Net position at December 31, 2016 (as originally stated)	$	42,909
Net Pension Liability at December 31, 2016		(19,473)
Net Position at December 31, 2016 (restated)	$	23,436

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF RYE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED December 31, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budget Basis	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 19,300	$ 19,300	$ 18,983	$ (317)
State sources	6,849	6,849	7,442	593
Investment revenue	95	95	11	(84)
Other	1,000	1,000	260	(740)
Total Revenues	27,244	27,244	26,696	(548)
Expenditures				
General government	21,317	21,317	15,668	5,649
Parks and recreation	650	650	135	515
Streets and highways	1,500	1,500	7,674	(6,174)
Public safety	3,000	3,000	10,761	(7,761)
Total Expenditures	26,467	26,467	34,238	(7,771)
Net Change in Fund Balance	777	777	(7,542)	(8,319)
Fund Balance - January 1	33,670	33,670	42,909	9,239
Fund Balance - December 31	$ 34,447	$ 34,447	$ 35,367	$ 920

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TOWN OF RYE
Last 10 Fiscal Years

		2016
Town's proportion (percentage) of the net pension liability		0.0019797892%
Town's proportionate share of the net pension liability	$	27,845
Town's covered employee payroll	$	12,942
Town's proportionate share of the net pension liability as a percentage of covered employee payroll		215.15%
Plan fiduciary net position as a percentage of the total pension liability		79.37%

The amounts presented for each fiscal year were determined as of December 31.

The schedule is presented to show information for ten years. Until information for the full ten year period is available, information will be presented for the years it is available.

SCHEDULE OF THE TOWN'S CONTRIBUTIONS
TOWN OF RYE
Last 10 Fiscal Years

		2016
Statutorily required contributions	$	1,522
Contributions in relation to the statutorily required contributions		1,522
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	12,000
Contribution as a percentage of covered-employee payroll		12.68%

The amounts presented for each fiscal year were determined as of December 31.

The schedule is presented to show information for ten years. Until information for the full ten year period is available, information will be presented for the years it is available.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF RYE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
WATER FUND
YEAR ENDED December 31, 2017

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and Other Financing Sources				
Charges for services	$ 120,380	$ 120,380	$ 117,167	$ (3,213)
Grant income	-	-	83,585	83,585
Other	50	50	-	(50)
Total Revenues and Other Financing Sources	120,430	120,430	200,752	80,322
Expenditures				
Personnel costs	29,800	29,800	26,732	3,068
Operating and maintenance	46,824	46,824	31,425	15,399
Capital outlay/projects	30,305	30,305	83,679	(53,374)
Debt service	23,037	23,037	23,037	-
Total Expenditures	129,966	129,966	164,873	(34,907)
Net Change in Net Position	$ (9,536)	$ (9,536)	$ 35,879	$ 45,415

Expenditures on GAAP Basis	$ 111,091
Depreciation	(45,395)
Capital expenditures	83,679
Principal paid on debt	15,498
Expenditures on Budgetary Basis	$ 164,873

TOWN OF RYE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SEWER FUND
YEAR ENDED December 31, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budget Basis	Variance with Final Budget Positive (Negative)
Revenues and Other Financing Sources				
Charges for services	$ 76,000	$ 76,000	$ 66,379	$ (9,621)
Other	150	150	51	(99)
Total Revenues and Other Financing Sources	76,150	76,150	66,430	(9,720)
Expenditures				
Personnel costs	5,000	5,000	4,072	928
Operating and maintenance	135,765	135,765	96,877	38,888
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total Expenditures	140,765	140,765	100,949	39,816
Net Change in Net Position	$ (64,615)	$ (64,615)	$ (34,519)	$ 30,096

Expenditures on GAAP Basis	$ 167,217
Depreciation	(66,268)
Capital expenditures	-
Principal paid on debt	-
Expenditures on Budgetary Basis	$ 100,949