

FREMONT SANITATION DISTRICT

FINANCIAL STATEMENTS
December 31, 2017



Logan *and* Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Independent Auditor's Report	a - b
Management's Discussion and Analysis	i - viii
Basic Financial Statements	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Fund Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4 - 24
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	25
Schedule of District Contributions	26
Supplementary Information	
Budgetary Comparison Schedule – (Non-GAAP Basis) with Reconciliation to GAAP Basis	27 - 29



Board of Directors
Fremont Sanitation District
Fremont County, Colorado

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Fremont Sanitation District as of and for the year 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Comparative Financial Information

The comparative financial information for the prior year has been presented in the accompanying financial statements in order to provide an analysis of changes in the District's financial position and operations. However, complete comparative financial information has not been presented in accordance with generally accepted accounting principles since its inclusion would make the financial statements cumbersome and difficult to read. The comparative financial information for the year ended December 31, 2016, by which a report dated April 26, 2017, expressed an unmodified opinion.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i – viii, and schedule of proportionate share of the net pension liability and the schedule of district contributions on pages 25 – 26, respectively, 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.

Supplementary Information

Our audit was performed for the purpose of forming opinions on the financial statements and related notes to financial statements that collectively comprise the Fremont Sanitation District's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule 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 budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Logan and Associates, LLC

Aurora, Colorado
April 4, 2018

Fremont Sanitation District



107 Berry Parkway Cañon City, CO 81212-3900
(719) 269-9050 Fax - (719)276-7001
E-Mail: epay@fsd.co
Website: www.fremontsanitation.com

ANNUAL REPORT

YEAR ENDING DECEMBER 31, 2017

Overview of the Financial Statements

This annual report consists of the following parts: Management's Discussion and Analysis, Basic Financial Statements, and Supplementary Information. The Financial Statements include notes that explain in detail some of the information included in the basic financial statements.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017

- Total Net Position, after accumulated depreciation expense decreased by \$578,490.
- Depreciation expense was in the amount of \$903,198.
- Total Liabilities decreased by \$559,776.
- There was a reduction in Long Term Debt of \$537,824.
- Operating Revenues decreased by \$258,803.
- Operating Expenses increased by \$544,404

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of this section is to provide non-technical information, so that the average District “shareholder” can understand the financial condition of the District. This understanding can then be utilized when evaluating rate increases and the effectiveness and efficiency of the District’s operations.

Who We Are

Fremont Sanitation District is a “Quasi-Private Public Entity” formed under Colorado Special District’s Laws. This means that we are a public body which is overseen by an elected Board of Directors, similar to a City and City Council. Unlike a City however, we operate as a non-profit business commonly referred to as an “enterprise fund”. All of the people living or who own property within our boundaries are the “shareholders”. All of our “shareholders” are eligible to vote on who is to sit on the Board of Directors. Only “shareholders” who live or own property within the District’s boundaries are eligible to be elected to sit on the Board of Directors. The Board’s primary responsibilities are to protect the public’s health and its capital investment in treatment and collection systems, while meeting environmental protection laws.

We use the term shareholder here rather than citizen or customer, because “shareholder” more accurately depicts the working relationship between the Board of Directors and District employees on one hand with the citizen customer (shareholder) on the other. Therefore, they have a vested interest in the proper maintenance and operation of the system.

The District has approximately 175.60 miles of pipes and 2,674 manholes that make up the collection system. This system transports 1.299 billion gallons of wastewater to the treatment

plant annually for treatment. Pipes range in size from 6-inch to 36-inch in diameter and are buried up to 40 feet in the ground.

As of December 31, 2017, we reported an increase of 46 new accounts which translates to 46 Equivalent Residential Units (ERU's). The District boundaries contain an estimated population (including inmates) of 36,000 people.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Statement of Net Position (page 1) includes information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses and Changes in Fund Net Position (page 2) identifies the District's revenues and expenses for the fiscal year ended December 31, 2017. The third financial statement is the Statement of Cash Flows (page 3). This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments, capital and related financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and cash equivalent balances for the past fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

When evaluating the financial condition of an entity the first thing to look at is the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. For 2017 the District's current assets (cash and equivalent) shows a decrease, while investments also

show an increase. Current Assets, which is considered to be an asset that consists of cash and other resources and is reasonably expected to be realized in cash or consumed within one year, decreased by \$151,807. Total Assets, which is defined as the total resources owned by the District, decreased by \$998,632. A large majority of total assets of the District resides within our system of pipelines, the Service Center and the Rainbow Park Regional Wastewater Treatment Plant. In order to maintain an acceptable accounting standard of reporting, the District 2017, the District had \$903,198 in accumulated depreciation adjustments. As a rule of thumb if Current Assets and Total Assets are increasing, everything is probably fine. If Current or Total Liabilities begin to increase more than the Current or Total Assets accounts are, then further assessment is warranted.

REVENUES

District operations are funded from revenues received from the various fees charged for services, interest income, and capital recovery through connection fees.

Condensed Statement of Revenues

<u>Revenue Source</u>	<u>2016</u>	<u>2017</u>	<u>Change Gain/ (Loss)</u>
Residential Customers	\$2,996,725	\$3,076,871	\$ 80,146
Commercial Customers	\$ 686,454	\$ 678,227	(\$ 8,227)
Institutional (Prisons)	\$1,172,283	\$1,124,056	(\$ 48,227)
Capital Recovery	\$1,148,760	\$ 219,008	(\$ 929,752)
Interest Income	\$ 28,104	\$ 43,376	\$ 15,272
Other Revenues	<u>\$ 462,350</u>	<u>\$ 383,217</u>	<u>(\$ 79,133)</u>
Total Revenues	<u>\$6,494,676</u>	<u>\$5,524,755</u>	<u>(\$ 969,921)</u>

Revenue for services increased by \$23,692. Revenues from residential and commercial customers exceeded 2017 budget projections by 2%, while revenues from the Federal

Correctional Facility and the Department of Corrections were approximately 8% below budget projections.

EXPENSES

Condensed Statement of Expenses

	<u>2016</u>	<u>2017</u>	<u>Change Gain/(Loss)</u>
Waste Transmission	\$1,141,911	\$1,468,295	\$ 326,384
Treatment Plant	\$1,499,443	\$1,947,087	\$ 447,644
District Administration	<u>\$2,933,535</u>	<u>\$2,687,863</u>	<u>(\$ 245,672)</u>
Total Expenses	<u>\$5,574,889</u>	<u>\$6,103,245</u>	<u>\$ 528,356</u>

CAPITAL ASSETS

As of December 31, 2017, the District had capital assets of \$16,518,020. The District received \$189,008 in System Development Fees during Budget Year 2017. In addition to the assets listed, the District has many miles of sanitary sewer mains, which while being fully depreciated are still operating and providing an economic benefit to the District.

Condensed Statement of Net Position

	<u>2016</u>	<u>2017</u>	<u>Change Gain/(Loss)</u>
Cash and Other Assets	\$ 7,457,701	\$ 7,305,362	(\$ 152,339)
Capital Assets	<u>\$17,364,313</u>	<u>\$16,518,020</u>	(\$ 846,293)
Total Assets	\$24,822,014	\$23,823,382	(\$ 998,632)
 Deferred Outflows of Resources	 \$ 691,397	 \$ 582,028	 (\$ 109,369)
Outstanding Long Term Debt	\$2,083,674	\$1,512,595	(\$ 571,079)
Net Pension Liability	\$3,310,276	\$3,954,880	\$ 644,604
Current Liabilities	<u>\$1,963,267</u>	<u>\$1,329,966</u>	(\$ 633,301)
Total Liabilities	\$7,357,217	\$6,797,441	(\$ 559,776)
 Deferred Inflows of Resources	 \$ 18,836	 \$ 49,101	 \$ 30,265
 <u>Net Position</u>			
Net Investment in Capital Assets	\$14,742,036	\$14,433,567	(\$ 308,469)
Restricted	\$ 170,000	\$ 165,000	(\$ 5,000)
Unrestricted	<u>\$ 3,225,322</u>	<u>\$ 2,960,301</u>	(\$ 265,021)
Total Net Position	<u>\$18,137,358</u>	<u>\$17,558,868</u>	(\$ 578,490)

LONG-TERM DEBT

As of December 31, 2017, the District had \$2,084,453 in outstanding debt principal. This amount represents a reduction in the amount of \$537,824 as the result of payments during 2017. Of this outstanding debt principal amount, \$954,341 is for debt incurred to provide sanitary sewer service, to (2) Local Improvement Districts (LID). Those "LIDS" are responsible for funding the semi-annual debt retirement payments. Monthly fees are collected from accounts within these areas in addition to the standard monthly fee the Fremont Sanitation District charges all of its customers. These are 40 year notes with varying ending dates. The remaining amount of debt is for work performed at the Treatment Plant and construction of the District's Service Center. This debt was a 20 year bond with an end date of August 2019. The District has made

certain covenants related to these bonds which are discussed in Note 6 on pages 13-14 of these financial statements.

Condensed Schedule of Revenues-Expenses Budget and Actual – Budgetary Bases

	<u>Budget Original 2017</u>	<u>Actual 2017</u>
Revenues	\$5,359,363	\$5,584,650
Expenses	\$5,193,913	\$5,794,441

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District’s Board of Directors adopted the 2018 Budget on December 19, 2017. The adopted budget contained a 5% rate increase for 2018.

Residential and Commercial System Development Fees have been estimated at \$85,000 and \$43,500 respectively for the 2018 Budget.

Five Year Projection

The presence of Hydrogen Sulfide gas in the District’s collection system is an ongoing issue that has resulted in deterioration of piping within the collection system, specifically in the interceptor piping. Low levels of hydrogen sulfide gas in the collection system can result in the production of odors that may be detected by residents living near major sewer mains. At higher levels hydrogen sulfide gas within the collection system can lead to the generation of sulfuric acid which is highly corrosive to concrete mains and manholes. In 2009, the District started rehabilitation of the concrete interceptor sewer main and manholes that had been damaged by the presence of sulfuric acid. Additional sections were rehabilitated in 2012, 2013, 2015, 2016 and

2017, and to date 27,665 feet of interceptor main and 78 manholes have been rehabilitated.

Remaining to be rehabilitated is approximately 6,196 feet of 36 inch interceptor main and 15 manholes. The cost to complete the interceptor rehabilitation is estimated at \$1.6 million.

Currently, the District is meeting new discharge limits that were included in our Permit issued in January 2015. Limits for the discharge of Total Phosphorus and Total Inorganic Nitrogen were added in the 2015 Permit and if limits for these two nutrients are lowered in the next permit cycle in 2020, the District will most likely need to install additional treatment methods to meet the potential new limits.

District Staff has developed a 5 year Capital Improvement Plan (CIP) that assess the life expectancy/replacement schedule for facilities, equipment, machinery and vehicles. The CIP will be utilized in the annual Budget preparation process.

Anyone having questions or comments regarding anything in this Audit Report should address them to the District's Board of Directors, at 107 Berry Parkway, Canon City, CO 81212.

Comments can be made by phone at (719)269-9050, or by email to epay@fsd.co.

“PRESERVING AND PROTECTING THE AREA HEALTH AND ENVIRONMENT WHILE
MEETING THE DEMANDS OF A GROWING COMMUNITY”

BASIC FINANCIAL STATEMENTS

FREMONT SANITATION DISTRICT

STATEMENT OF NET POSITION

December 31, 2017

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 802,180	\$ 854,170
Investments	239,379	177,535
Restricted Cash and Cash Equivalents	702,208	2,476,789
Restricted Investments	4,710,950	2,621,763
Accounts Receivable	749,524	605,771
Grants Receivable	30,000	657,013
Interest Receivable	4,244	-
Notes Receivable, Current Portion	517	618
Inventory	59,934	57,084
Total Current Assets	<u>7,298,936</u>	<u>7,450,743</u>
Noncurrent Assets		
Notes Receivable, Long-term	-	532
Loan Savings Receivable	6,426	6,426
Total Noncurrent Assets	<u>6,426</u>	<u>6,958</u>
Capital Assets		
Capital Assets, Not Being Depreciated	1,088,522	1,056,167
Capital Assets, Net of Accumulated Depreciation	15,429,498	16,308,146
Total Capital Assets	<u>16,518,020</u>	<u>17,364,313</u>
TOTAL ASSETS	<u>23,823,382</u>	<u>24,822,014</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions	582,028	691,397
LIABILITIES		
Current Liabilities		
Accounts and Retainages Payable	96,330	841,001
Accrued Salaries, Wages and Related Liabilities	83,677	83,897
Unearned Revenue - Service Charges	406,735	346,840
Accrued Interest Payable	28,440	39,070
Loans and Bonds Payable, Current Portion	571,858	538,603
Compensated Absences Payable - Current Portion	142,926	113,856
Total Current Liabilities	<u>1,329,966</u>	<u>1,963,267</u>
Noncurrent Liabilities		
Loans and Bonds Payable, Net of Bond Discount	1,512,595	2,083,674
Net Pension Liability	3,954,880	3,310,276
Total Noncurrent Liabilities	<u>5,467,475</u>	<u>5,393,950</u>
TOTAL LIABILITIES	<u>6,797,441</u>	<u>7,357,217</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources Related to Pensions	49,101	18,836
NET POSITION		
Net Investment in Capital Assets	14,433,567	14,742,036
Restricted for Emergency Reserve	165,000	170,000
Unrestricted	2,960,301	3,225,322
TOTAL NET POSITION	<u>\$ 17,558,868</u>	<u>\$ 18,137,358</u>

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

FREMONT SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

Year Ended December 31, 2017

	BUSINESS-TYPE ACTIVITIES	
	2017	2016
OPERATING REVENUES		
Charges for Services	\$ 5,015,778	\$ 4,996,480
Miscellaneous	43,107	321,208
TOTAL OPERATING REVENUES	5,058,885	5,317,688
OPERATING EXPENSES		
Waste Collection	622,281	577,361
Waste Transmission	846,014	564,550
Wastewater Treatment, Pretreatment and Laboratory	1,380,743	986,769
Solids Processing	84,275	133,426
Engineering	482,069	379,248
Administration		
Buildings and Grounds		
Plant	447,518	848,217
Service Center	114,260	98,605
Finance	516,658	410,870
Information Technology	302,483	269,781
Management and General	273,830	216,888
Depreciation	903,198	943,210
TOTAL OPERATING EXPENSES	5,973,329	5,428,925
OPERATING INCOME (LOSS)	(914,444)	(111,237)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	43,376	28,104
Interest Expense	(129,916)	(146,090)
Health Insurance Pool Reimbursement	203,486	-
Gain (Loss) on Disposal	-	126
TOTAL NON-OPERATING REVENUES (EXPENSES)	116,946	(117,860)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(797,498)	(229,097)
CAPITAL CONTRIBUTIONS		
Capital Grants	30,000	1,000,000
System Development Fees	189,008	148,760
TOTAL CAPITAL CONTRIBUTIONS	219,008	1,148,760
CHANGE IN NET POSITION	(578,490)	919,663
NET POSITION, Beginning	18,137,358	17,217,695
NET POSITION, Ending	\$ 17,558,868	\$ 18,137,358

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

FREMONT SANITATION DISTRICT

STATEMENT OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
Year Ended December 31, 2017

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 5,067,577	\$ 4,880,295
Miscellaneous Receipts	43,107	321,208
Cash Payments to Employees	(2,569,654)	(2,489,498)
Cash Payments to Suppliers	(2,434,910)	(983,204)
Net Cash Provided by Operating Activities	106,120	1,728,801
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Received from Notes Receivable	633	600
Acquisition of Capital Assets	(56,905)	(2,142,390)
Cash Received from Disposal of Capital Assets	-	126
Principal Paid	(538,489)	(521,377)
Interest and Fiscal Charges Paid	(139,881)	(155,721)
Cash Received from Capital Grants	657,013	364,500
System Development Fees Received	189,008	148,760
Net Cash Provided (Used) by Capital and Related Financing Activities	111,379	(2,305,502)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Received from Health Insurance Pool Reimbursement	67,829	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investment Activity	(2,151,031)	(20,165)
Interest Received	39,132	28,104
Net Cash Provided (Used) by Investing Activities	(2,111,899)	7,939
Decrease in Cash and Cash Equivalents	(1,826,571)	(568,762)
CASH AND CASH EQUIVALENTS, Beginning	3,330,959	3,899,721
CASH AND CASH EQUIVALENTS, Ending	\$ 1,504,388	\$ 3,330,959
SUMMARY OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 802,180	\$ 854,170
Restricted Cash and Cash Equivalents	702,208	2,476,789
Total Cash and Cash Equivalents	\$ 1,504,388	\$ 3,330,959
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (Loss)	\$ (914,444)	\$ (111,237)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities		
Depreciation	903,198	943,210
Net Change in Deferred Outflows and Inflows Related to Pensions	784,238	257,796
Changes in Assets and Liabilities		
Accounts Receivable	(8,096)	(26,839)
Prepaid Insurance	-	10,719
Inventory	(2,850)	17,634
Accounts Payable	(744,671)	739,223
Accrued Salaries and Benefits	(220)	9,646
Deferred Revenues - Customer Service Charges	59,895	(89,346)
Compensated Absences Payable	29,070	(22,005)
Net Cash Provided by Operating Activities	\$ 106,120	\$ 1,728,801

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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fremont Sanitation District (the "District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Fremont County, Colorado. The District was established to provide sewer services to the District residents. The District is governed by an elected seven-member Board of Directors.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it. Based on the application of the criteria, the District does not include additional organizations in its reporting entity.

Fund Accounting

The District uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary fund-type, an enterprise fund, to account for its activities of providing sewer collection, transmission and treatment services to District residents. The enterprise fund uses the economic resources measurement focus and the accrual basis of accounting for reporting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. The fund distinguishes operating revenues and expenses from non-operating revenues and expenses, and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Position

Cash Equivalents and Investments - Cash equivalents include cash deposits and highly liquid investments with original maturities of three months or less when purchased. Certificate of deposits with original maturities greater than three months when purchased are reported as investments. Investments are reported at fair value or the net asset value method.

Receivables - All receivables are reported at their gross value. An allowance for uncollectible accounts is not reported because the uncollectible amounts were determined to be immaterial by management.

Inventory - Inventory is valued at cost using the first-in, first-out method. The cost of inventory is recorded as expense when consumed rather than when purchased.

Capital Assets - Capital assets, which include land, rights of way, water rights, sewer transmission system, treatment plant, buildings and equipment are reported in the financial statements net of accumulated depreciation. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All infrastructure assets owned by the District, which include sewer collection and transmission systems, have been capitalized.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives.

Buildings, Transmission System and Treatment Plant	20 - 50 years
Improvements	10 - 25 years
Equipment	3 - 30 years

Deferred Revenue – Service Charges – Deferred revenues arise when resources are received by the District before it has a legal claim to them. Certain District billing cycles include billings for services to be provided in January, February and March of the following year are reported as deferred revenue in the financial statements.

Compensated Absences - Employees of the District are allowed to accumulate unused vacation time and sick leave. Employees will be paid for all accrued vacation time upon separation of employment subject to restrictions set forth in the District’s policy manual. Employees in good standing after 10 years of service will be paid for unused sick leave up to a maximum of 360 hours at 50% of the current pay rate. These compensated absences are recognized as current salary costs when earned. Management has determined that the accrued compensated absences balances are due within one year. A current liability is reported in the financial statements for the accrued compensated absences.

Long-Term Obligations – Long-term debt and other long-term obligations are reported at face value, net of unamortized debt premiums and discounts, as liabilities in the financial statements. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The District has items related to pensions that are reported as deferred outflows of resources at December 31, 2017.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until then. The District has an item related to pensions that is reported as deferred inflows of resources at December 31, 2017.

Net Position – Net position results from the accumulation of net earnings from operating income, non-operating revenues and expenses, and capital contributions and are classified in the financial statements as follows:

- Net Investment in Capital Assets – The net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by the long-term debt issued to acquire, construct, or improve the related capital assets. The long-term debt attributable to the unspent long-term debt proceeds at the end of the year is excluded from the calculation. Instead it is included in the same net position component as the unspent proceeds.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This classification includes the residual net position that does not meet the classification of “net investment in capital assets” or “restricted.”

Pensions

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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The District has evaluated events subsequent to the year ended December 31, 2017 through April 4, 2018, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

Concentration of Customer Risk

The District receives approximately 23% of its sewer service revenues from two customers, Colorado Department of Corrections and Federal Correction Center. The loss of this revenue, if it were to occur could significantly affect the District's operations. District management does not expect the relationship with the two customers to change in the near future.

Reclassifications

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In October, management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1.
- The operating budget includes proposed expenditures and the means of financing them.
- Prior to December 31, the budget is legally enacted through passage of a resolution.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets and Budgetary Accounting

- Management is authorized to transfer budgeted amounts between departments within the fund. However, any revisions that alter the total expenditures of the fund must be approved by the Board of Directors.
- The budget is legally adopted by the District. The budget is adopted on a non-GAAP budgetary basis. Capital outlay and long-term debt principal payments are budgeted as expenditures, and depreciation, and amortization of debt issue costs are not budgeted. Deferred revenues are reported as revenue for budgetary presentation.
- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

For the year ended December 31, 2017, the District's budgetary basis actual expenditures exceeded its adopted budgeted expenditures by \$601,527. This may be a violation of State statute.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at December 31, 2017, follows:

Petty Cash	\$	500
Cash Deposits		4,079,275
Investments		<u>2,374,942</u>
Total	\$	<u>6,454,717</u>

Cash and Investments are reported in the financial statements as follows:

Cash and Cash Equivalents	\$	802,180
Investments		239,379
Restricted Cash and Cash Equivalents		702,208
Restricted Investments		<u>4,710,950</u>
Total	\$	<u>6,454,717</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to \$250,000 for each financial institution. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2017, the District had deposits totaling \$4,084,661 of which, \$3,108,869 were collateralized with securities held by the financial institutions' agents but not in their name.

Investments

The District has not adopted a formal investment policy; however, the District follows State statutes regarding investments. The District generally limits its concentration of investments to Local Government Investment Pools, obligation of the United States and certain U.S. government agency securities, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

State statutes specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following.

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

The District had invested \$2,374,942 in the Colorado Government Liquid Asset Trust (COLOTRUST) (the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers share in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as the safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAA by Standard and Poor's. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Restricted Cash and Investments

Restricted cash and investments consist of amounts for operating and maintenance reserves, future system improvements and debt service reserves as required by the District's capital replacement policies, and loans and revenue bonds.

NOTE 4: NOTES RECEIVABLE

Prior to 2008, the District expanded its service lines in Florence, Colorado. In order for homeowners to connect onto the service line an assessment of \$2,098 per connection was made. The assessment charges are in the nature of notes receivable, which are collateralized and attached to the respective properties. The notes are for a period of 30 years, at 5% simple interest, and payable monthly, maturing in April 2024. The remaining balance of the notes receivable balances at December 31, 2017 totaled \$517, which is reported as the current portion due.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017, is summarized below:

	Balances 12/31/2016	Additions	Deletions	Balances 12/31/2017
Capital Assets, not being depreciated				
Land, Rights of Way and Water Rights	\$ 1,050,944	\$ -	\$ -	\$ 1,050,944
Construction in Progress	5,223	32,355	-	37,578
Total Capital Assets, not being depreciated	<u>1,056,167</u>	<u>32,355</u>	<u>-</u>	<u>1,088,522</u>
Capital Assets, being depreciated				
Transmission System	26,124,510	-	-	26,124,510
Treatment Plant	13,790,518	-	-	13,790,518
Buildings and Improvements	5,335,865	-	-	5,335,865
Transportation Equipment	392,622	-	-	392,622
Equipment	1,754,878	24,550	-	1,779,428
Total Capital Assets, being depreciated	<u>47,398,393</u>	<u>24,550</u>	<u>-</u>	<u>47,422,943</u>
Less accumulated depreciation				
Transmission System	(13,965,483)	(646,449)	-	(14,611,932)
Treatment Plant	(13,615,630)	(49,800)	-	(13,665,430)
Buildings and Improvements	(2,807,166)	(117,295)	-	(2,924,461)
Transportation Equipment	(387,211)	(4,330)	-	(391,541)
Equipment	(314,757)	(85,324)	-	(400,081)
Total accumulated depreciation	<u>(31,090,247)</u>	<u>(903,198)</u>	<u>-</u>	<u>(31,993,445)</u>
Total Capital Assets, being depreciated, net	<u>16,308,146</u>	<u>(878,648)</u>	<u>-</u>	<u>15,429,498</u>
Total Capital Assets, net	<u>\$ 17,364,313</u>	<u>\$ (846,293)</u>	<u>\$ -</u>	<u>\$ 16,518,020</u>

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due Within One Year
1999 CWRPDA Loan	\$ 1,647,899	\$ -	\$ 515,305	\$ 1,132,594	\$ 547,511
Revenue Bonds, Series 1999A	551,617	-	14,576	537,041	15,213
Revenue Bonds, Series 2003A	425,908	-	8,608	417,300	9,134
Bond Discount	(3,147)	-	(665)	(2,482)	-
	<u>2,622,277</u>	<u>-</u>	<u>537,824</u>	<u>2,084,453</u>	<u>571,858</u>
Compensated Absences Payable	<u>113,856</u>	<u>151,192</u>	<u>122,122</u>	<u>142,926</u>	<u>142,926</u>
Total	<u><u>\$ 2,736,133</u></u>	<u><u>\$ 151,192</u></u>	<u><u>\$ 659,946</u></u>	<u><u>\$ 2,227,379</u></u>	<u><u>\$ 714,784</u></u>

1999 Loan from the Colorado Water Resources and Power Development Authority obtained to finance a portion of the cost of the wastewater treatment facility. Principal and interest payments are due semi-annually on February 1 and August 1, through August 1, 2019. Interest accrues at 4.2% per annum.

1999A Wastewater Enterprise Revenue Bonds were issued to finance the construction of sanitary sewer improvements in the Fremont County Sanitary Sewer Line Extension LID No. 1997-1. Principal and interest payments are due semi-annually on May 19 and November 19, through May 19, 2039. Interest accrues at 4.5% per annum.

2003A Wastewater Enterprise Revenue Bonds were issued to finance the construction of sanitary sewer improvements in the Fremont County Four Mile Area Sewer Line Extension LID No. 2001-1. Principal and interest payments are due semi-annually on May 19 and November 19, through May 19, 2043. Interest accrues at 4.5% per annum.

Pledged Revenues - These loans and revenue bonds are payable solely from revenues of the District's sewer system after deducting operating and maintenance costs, excluding depreciation. During the year ended December 31, 2017, net revenues of \$1,005,376 was available to pay the respective annual debt service of \$667,741.

Restricted Covenants - The CWRPDA loan covenants require the District to maintain a cash reserve equal to three months of operating and maintenance expenses, excluding depreciation of the system, not to exceed \$1,250,000.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: LONG-TERM DEBT (Continued)

The Wastewater Enterprise Revenue Bonds covenants require the District to maintain cash reserves for the related current and future debt service.

Annual debt service requirements for the outstanding loans and revenue bonds at December 21, 2017 are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 571,858	\$ 107,345	\$ 679,203
2019	610,377	65,845	676,222
2020	26,444	40,410	66,854
2021	27,647	39,207	66,854
2022	28,905	37,949	66,854
2023 - 2027	165,495	168,775	334,270
2028 - 2032	206,737	127,533	334,270
2033 - 2037	258,256	76,014	334,270
2038 - 2042	176,937	21,151	198,088
2043	14,279	177	14,456
	<u>\$ 2,086,935</u>	<u>\$ 684,406</u>	<u>\$ 2,771,341</u>

NOTE 7: RETIREMENT COMMITMENTS

Multiple-Employer Defined Benefit Pension Plan

Plan Description. Eligible employees of the District 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/investments/pera-financial-reports.

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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

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% and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100% 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% 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 receive a match of either 50% or 100% 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 (COLAs), 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 and all benefit recipients of the DPS benefit structure receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2% or the average CPI-W for the prior calendar year, not to exceed 10% 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 shown above considering a minimum 20 years of service credit, if deemed disabled.

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 receive the benefits.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

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

Employer Contribution Rate	(1) 10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. 24-51-208(1)(f)	-1.02%
Amount Apportioned to the SCHDTF	8.98%
Amortization Equalization Disbursement (AED) as specified in C.R.S. 24-51-1411	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. 24-51-1411	1.50%
Total Employer Contribution Rate to the SCHDTF	<u>12.68%</u>

(1) - Rates are expressed as a 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 District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$216,763 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 District reported a liability of \$3,954,880 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 updated procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on District 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 District's proportion was .29288%, which was a decrease of .00762% from its proportion measured as of December 31, 2015. For the year ended December 31, 2017, the District recognized pension expense of \$1,030,433.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual experience	\$ 8,067	\$ -
Changes in assumptions or other inputs	34,451	-
Net difference between projected and actual earnings on pension plan investments	314,412	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	49,101
Contributions subsequent to the measurement date	225,098	-
Total	<u>\$ 582,028</u>	<u>\$ 49,101</u>

\$225,098 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 December 31,

2018	\$ 180,873
2019	122,443
2020	4,513

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

Actuarial cost method	Entry age
Price inflation:	2.80%
Real wage growth:	1.10%
Wage inflation:	3.90%
Salary increases, including wage inflation:	3.90% – 10.85%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation:	7.50%
Discount rate:	7.50%
Future 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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (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 31, 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 adjust to 55% of the base rate for males and 40% 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.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

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

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% factor applied to rates for ages less than 80, a 108% factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78% factor applied to rates for ages less than 80, a 109% 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% 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 assumptions changed, effective December 31, 2016, as follows:

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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

- Wage inflation assumption decreased from 3.90% per year to 3.50% 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 the November 18, 2016 adoption of the long-term expected rate of return by the 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
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	<u>100.00%</u>	

* 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%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions as shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- 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 3.90%.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

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

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: RETIREMENT COMMITMENTS (Continued)

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

As of the prior measurement date, the long-term expected rate of return of 7.50% 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%, 0.25% higher compared to the current measurement date.

Sensitivity of the District'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%, 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%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Proportionate Share of Net Pension Liability	<u>\$ 5,831,290</u>	<u>\$ 3,954,880</u>	<u>\$ 2,401,008</u>

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.

Defined Contribution Pension Plan

Plan Description. Employees of the District who are members of the LGDTF may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14, of the CRS, as amended, assigns the authority to establish the Plan provision to the PERA Board of Trustees. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy. The Voluntary Investment Program is funded by voluntary contributions of up to a maximum limit set by the IRS, as established under Title 24, Article 51, Section 1402, of the CRS, as amended. The District does not make contributions to the 401(k) Plan. For the year ended December 31, 2017, program members contributed \$36,721.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment health care plan administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy The District is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the C.R.S., as amended. For the years ending December 31, 2017, 2016 and 2015, the District's contributions to the HCTF were \$21,098, \$17,437 and \$17,407, respectively, equal to their required contributions for each year.

NOTE 9: RISK MANAGEMENT

Public Entity Risk Pool

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Colorado Special Districts Property and Liability Pool and Workmen's Compensation Pool (the "Pool").

The purposes of the Pool are to provide members defined liability, property, and workers compensation coverages and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool.

FREMONT SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 9: RISK MANAGEMENT (Continued)

Public Entity Risk Pool (Continued)

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs.

All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR), 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.

Enterprises, defined as government-owned business 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 has made certain interpretations of the Amendment's language in order to determine compliance. The District's management believes a significant portion of its operations qualifies for the "enterprise" exclusion allowed by the Amendment. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending, as required by the Amendment. At December 31, 2017, the emergency reserve of \$165,000, was reported as a restriction of net position in the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

FREMONT SANITATION DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 PERA Pension Plan
 Last Ten Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability	0.29288%	0.30050%	0.30468%	0.30075%
Proportionate Share of the Net Pension Liability	\$ 3,954,880	\$ 3,310,276	\$ 2,730,889	\$ 2,474,929
Covered Employee Payroll	\$ 1,709,483	\$ 1,706,616	\$ 1,669,095	\$ 1,594,155
Proportionate Share of Net Pension Liability as a Percentage of its Covered Employee Payroll	231.35%	193.97%	163.61%	155.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.65%	76.87%	80.72%	77.66%
Total Pension Liability	\$ 5,123,847,000	\$ 4,762,090,000	\$ 4,647,777,000	\$ 4,517,239,000
Plan Fiduciary Net Position	<u>3,773,506,000</u>	<u>3,660,509,000</u>	<u>3,751,468,000</u>	<u>3,508,312,000</u>
Net Pension Liability	<u>\$ 1,350,341,000</u>	<u>\$ 1,101,581,000</u>	<u>\$ 896,309,000</u>	<u>\$ 1,008,927,000</u>

* - The amounts presented for each fiscal year were determined as of 12/31.

NOTE: Information for the prior six years was not available to report.

FREMONT SANITATION DISTRICT

SCHEDULE OF CONTRIBUTIONS

PERA Pension Plan
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 225,098	\$ 216,763	\$ 216,399	\$ 211,695
Contributions in Relation to the Contractually Required Contribution	<u>225,098</u>	<u>216,763</u>	<u>216,399</u>	<u>211,695</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,775,223	\$ 1,709,483	\$ 1,706,616	\$ 1,669,095
Contributions as a Percentage of Covered Employee Payroll	12.68%	12.68%	12.68%	12.68%

NOTE: Information for the prior six years was not available to report.

SUPPLEMENTARY INFORMATION

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2017

(With Comparative Actual Totals for the Year Ended December 31, 2016)

	2017		VARIANCE Positive (Negative)	2016
	ORIGINAL AND FINAL BUDGET	ACTUAL		ACTUAL
REVENUES				
Operating				
Sewer Service Charges	\$ 5,026,439	\$ 5,075,673	\$ 49,234	\$ 4,907,134
Miscellaneous	14,715	43,107	28,392	321,208
Non-Operating				
Capital Grants	-	30,000	30,000	1,000,000
Investment Income	20,259	43,376	23,117	28,104
System Development Fees	147,950	189,008	41,058	148,760
Health Reinsurance Pool Reimbursement	-	203,486	203,486	-
Reserves	150,000	-	(150,000)	-
TOTAL REVENUES	5,359,363	5,584,650	225,287	6,405,206
EXPENDITURES				
Plant Operations				
Construction				
Personnel Services	393,221	448,024	(54,803)	377,965
Operating Expenses	70,180	62,454	7,726	61,416
Capital Outlay	194,124	156,658	37,466	227,143
Total Construction	657,525	667,136	(9,611)	666,524
Transmission				
Personnel Services	426,373	600,084	(173,711)	482,927
Operating Expenses	184,223	245,930	(61,707)	2,169,213
Capital Outlay	-	12,050	(12,050)	-
Total Transmission	610,596	858,064	(247,468)	2,652,140
Treatment Plant				
Personnel Services	657,320	777,089	(119,769)	697,440
Operating Expenses	356,973	322,092	34,881	106,718
Total Treatment Plant	1,014,293	1,099,181	(84,888)	804,158
Solids Processing				
Operating Expenses	90,113	84,275	5,838	133,426
Total Solids Processing	90,113	84,275	5,838	133,426
Laboratory				
Personnel Services	79,951	106,044	(26,093)	83,170
Operating Expenses	40,012	36,438	3,574	27,062
Total Laboratory	119,963	142,482	(22,519)	110,232
Pretreatment				
Personnel Services	92,794	122,374	(29,580)	55,399
Operating Expenses	28,347	16,706	11,641	16,980
Total Pretreatment	\$ 121,141	\$ 139,080	\$ (17,939)	\$ 72,379

(Continued)

See the accompanying Independent Auditor's Report.

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2017

(With Comparative Actual Totals for the Year Ended December 31, 2016)

	2017		VARIANCE Positive (Negative)	2016
	ORIGINAL AND FINAL BUDGET	ACTUAL		ACTUAL
EXPENDITURES (Continued)				
Plant Operations (Continued)				
Engineering				
Personnel Services	\$ 345,090	\$ 462,611	\$ (117,521)	\$ 361,905
Operating Expenses	26,128	19,458	6,670	17,343
Total Engineering	<u>371,218</u>	<u>482,069</u>	<u>(110,851)</u>	<u>379,248</u>
Total Plant Operations	<u>2,984,849</u>	<u>3,472,287</u>	<u>(487,438)</u>	<u>4,818,107</u>
Administration				
Buildings and Grounds - Plant				
Personnel Services	10,851	17,670	(6,819)	13,102
Operating Expenses	442,849	429,848	13,001	835,115
Total Building and Grounds - Plant	<u>453,700</u>	<u>447,518</u>	<u>6,182</u>	<u>848,217</u>
Buildings and Grounds - Service Center				
Personnel Services	53,014	71,751	(18,737)	55,859
Operating Expenses	56,934	42,509	14,425	42,746
Total Buildings and Grounds - Service Center	<u>109,948</u>	<u>114,260</u>	<u>(4,312)</u>	<u>98,605</u>
Board Services				
Personnel Services	12,992	14,377	(1,385)	12,321
Operating Expenses	8,698	11,526	(2,828)	10,271
Total Board Services	<u>21,690</u>	<u>25,903</u>	<u>(4,213)</u>	<u>22,592</u>
Finance				
Personnel Services	334,125	414,875	(80,750)	315,294
Operating Expenses	104,295	101,783	2,512	95,576
Total Finance	<u>438,420</u>	<u>516,658</u>	<u>(78,238)</u>	<u>410,870</u>
District Management				
Personnel Services	165,237	219,106	(53,869)	173,887
Operating Expenses	25,810	28,821	(3,011)	20,409
Total District Management	<u>191,047</u>	<u>247,927</u>	<u>(56,880)</u>	<u>194,296</u>
Information Technology				
Personnel Services	99,599	128,737	(29,138)	105,666
Operating Expenses	169,097	173,746	(4,649)	164,115
Total Information Technology	<u>268,696</u>	<u>302,483</u>	<u>(33,787)</u>	<u>269,781</u>
Total Administration	<u>1,483,501</u>	<u>1,654,749</u>	<u>(171,248)</u>	<u>1,844,361</u>

(Continued)

See the accompanying Independent Auditor's Report.

FREMONT SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2017

(With Comparative Actual Totals for the Year Ended December 31, 2016)

	2017		VARIANCE Positive (Negative)	2016
	ORIGINAL AND FINAL BUDGET	ACTUAL		ACTUAL
Debt Service				
Principal Payments	\$ 569,535	\$ 538,489	\$ 31,046	\$ 521,377
Interest and Fiscal Charges	156,029	129,916	26,113	146,090
Total Debt Service	<u>725,564</u>	<u>668,405</u>	<u>57,159</u>	<u>667,467</u>
TOTAL EXPENDITURES	<u>5,193,914</u>	<u>5,795,441</u>	<u>(601,527)</u>	<u>7,329,935</u>
CHANGE IN NET POSITION, Budgetary Basis	<u>\$ 165,449</u>	(210,791)	<u>\$ (376,240)</u>	(924,729)
ADJUSTMENTS TO GAAP BASIS				
Unearned Revenue:				
Sewer Service Charges - Prior Year		346,840		436,186
Sewer Service Charges - Current Year		(406,735)		(346,840)
Capital Outlay		56,905		2,176,753
Depreciation		(903,198)		(943,210)
Principal Payments on Long-term Debt		538,489		521,377
Gain (Loss) on Disposal of Capital Assets		-		126
CHANGE IN NET POSITION, GAAP Basis		(578,490)		919,663
NET POSITION, Beginning		<u>18,137,358</u>		<u>17,217,695</u>
NET POSITION, Ending		<u>\$ 17,558,868</u>		<u>\$ 18,137,358</u>

See the accompanying Independent Auditor's Report.