



## Boxelder Sanitation District

### Financial Statements and Supplementary Information

For the Years Ended December 31, 2017 and 2016

# Boxelder Sanitation District

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## Independent Auditor's Report

Board of Directors  
Boxelder Sanitation District  
Fort Collins, Colorado

We have audited the accompanying financial statements of the Boxelder Sanitation District (the "District") as of and for the years ended December 31, 2017 and 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boxelder Sanitation District as of December 31, 2017 and 2016, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 30, and the Schedule of District Contributions on page 31 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 evidence sufficient to express an opinion or provide any assurance.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis) on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis) 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is fairly stated in all material respects in relation to the financial statements as a whole.

*Anton Collins Mitchell LLP*

Greeley, Colorado  
June 18, 2018

**Boxelder Sanitation District  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

2017 Year in Perspective

Boxelder Sanitation District (the "District") experienced growth in its customer base, operating revenue and capital assets in 2017 as illustrated in the table below.

Category	Growth over the previous year		
	2017	2016	2015
Customer base	6%	4%	2%
Operating revenue	43%	12%	10%
Capital assets (net of depreciation)	28%	6%	4%

General Discussion

The District is a single fund entity whose primary function is to collect and treat wastewater. The operating revenues and expenses relate to the core function of operating the District and its facilities, while the non-operating revenues and expenses include items not related to day-to-day operations such as gain on disposal of capital assets, investment income and interest expense on debt. The basic financial statements of the District consist of two primary statements: *Statements of Net Position* and *Statements of Revenues, Expenses and Changes in Net Position*.

*Statements of Net Position* reflect the cumulative financial condition of the District at two points in time: December 31, 2017 and 2016. The net position category of the *Statements of Net Position* reflects the sum total of earnings (revenues less expenses) and contributions to the District over its lifetime, net of any losses incurred.

*Statements of Revenues, Expenses and Changes in Net Position* shows the change in financial condition from operations and other activities during the fiscal years ending December 31, 2017, and 2016. Changes in net position for this period are the net sum of operations, non-operating incomes and expenses, and capital contributions.

Discussion of Statements of Net Position

Changes in the primary constituents of net position are summarized in the table below.

Category	2017 (In Millions)	2016 (In Millions)	2015 (In Millions)
Current Assets	\$11.797	\$7.956	\$8.912
Non-current Assets	\$0.764	\$0.894	\$0.677
Net Capital Assets	\$34.059	\$28.389	\$26.844
Deferred Outflows	\$0.521	\$0.306	\$0.195
Current Liabilities	\$1.058	\$1.390	\$2.123
Non-current Liabilities	\$9.783	\$9.949	\$9.946
Deferred Inflows	\$0.005	\$0.028	\$0.000

**Boxelder Sanitation District  
Management's Discussion and Analysis  
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<b>Net Position*:</b>			
<b>Net investment in capital assets</b>	\$25.681	\$19.537	\$17.509
<b>Restricted</b>	\$0.764	\$0.894	\$0.677
<b>Unrestricted</b>	<u>\$9.850</u>	<u>\$5.747</u>	<u>\$6.374</u>
<b>Total</b>	<u>\$36.295</u>	<u>\$26.178</u>	<u>\$24.560</u>

\*Amounts included in net position for 2015 does not reflect the restatement that occurred in 2015.

**Current Assets:** The 2017 current assets increased by approximately 48% from the prior year, primarily due to higher balances in cash and cash equivalents.

**Non-current Assets:** Non-current assets reflect the restricted assets associated with the 2010 borrowing from the Colorado Water Resources and Power Development Authority ("CWR&PDA") for the change of wastewater treatment process necessary to comply with the District's National Pollutant Discharge Elimination System ("NPDES") permit. The restricted amount is comprised of \$56,518 and \$80,920 loan proceeds receivable as of December 31, 2016 and 2015, respectively, and an operational and maintenance reserve in an amount equal to three months of operating expenses excluding depreciation as set forth in the annual budget for the current fiscal year. There were no loan proceeds receivable in 2017. Additional information on the borrowing can be found in Note 4 of this report.

**Capital Assets:** During the fiscal year 2017, the primary increase in capital assets was a result of rehabilitation of collection lines. The net increase in capital assets net of depreciation was \$5,670,476. Contributed capital assets received from developers in 2017 was \$3,337,611.

During the fiscal year 2016, the primary increase in capital assets was the result of construction in progress for rehabilitation of collection lines. There was a net increase in capital assets net of depreciation of \$1,544,568. Contributed capital assets received from developers in 2016 was \$273,727.

Additional information on the District's capital assets can be found in Note 3 of this report.

**Current Liabilities:** At December 31, 2017 current liabilities were \$331,520 less than the amount at December 31, 2016. Although the other accrued expenses increased, accounts payable decreased considerably.

**Non-current Liabilities:** The 2017 non-current liabilities increased by \$166,841 when compared to 2016 primarily due to an increase in the net pension liability. Additional information about the District's pension liability can be found in Note 6 of this report.

**Net Position:** Net position at fiscal year-end of 2017 was approximately \$36.3 million, an increase of 39% (approximately \$13.1 million) over the total net position at the end of fiscal year 2016. Net position at fiscal year-end of 2016 was approximately \$26.2 million, an increase of 7% (approximately \$1.6 million) over the total net position at the end of fiscal year 2015.

**Boxelder Sanitation District  
Management's Discussion and Analysis  
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Discussion of Statements of Revenues, Expenses and Changes in Net Position

<b>Category</b>	<b>2017 (In Millions)</b>	<b>2016 (In Millions)</b>	<b>2015 (In Millions)</b>
<b>Total Operating Revenue</b>	\$4.978	\$3.480	\$3.103
<b>Total Operating Expenses</b>	<u>\$(3.766)</u>	<u>\$(3.511)</u>	<u>\$(4.090)</u>
<b>Income from Operations</b>	\$1.212	\$(0.031)	\$(0.987)
<b>Non-operating Income (Expenses)</b>	\$(0.136)	\$(0.170)	\$(0.126)
<b>Capital Contributions</b>	<u>\$9.041</u>	<u>\$1.819</u>	<u>\$0.564</u>
<b>Increase in Net Position</b>	\$10.117	\$1.618	\$(0.549)
<b>Net Position – January 1</b>	<u>\$26.178</u>	<u>\$24.560</u>	<u>\$25.909</u>
<b>Restatement – Change in Accounting Principle</b>	n/a	n/a	<u>\$(0.800)</u>
<b>Net Position – December 31</b>	<u>\$36.295</u>	<u>\$26.178</u>	<u>\$24.560</u>

Revenue Streams: The main revenue streams to the District consist of sewer utility charges and System Development Charges (tap sales). The sewer utility charges are on-going monthly charges paid by District customers while the SDC are one-time capital infusions from new construction and development. In 2017, a \$20.00 monthly fee was added to the monthly charges to pay for existing infrastructure rehabilitation. A smaller revenue stream (other revenues) consists mainly of delinquent penalty charges, growth related plan review fees, and infrastructure inspection charges. The District does not levy a tax on properties in the District.

Capital Contributions: In 2017 the District received sanitary sewer infrastructure valued at \$3,337,611. This was an increase of approximately \$3,063,884 from 2016.

Historically, SDC collections have been a barometer of growth, as they are capital investments paid to the District related to new residential and non-residential construction. In 2017 net SDC revenue was approximately \$5.703 million for a total of approximately 475 taps purchased, which was a 269% increase from the 2016 net SDC revenue. In 2016 net SDC revenue was approximately \$1.545 million for a total of 155 taps purchased, which was an 176% increase from the 2015 net SDC revenue.

Operating Expenses: There are three categories of operating expenses tied integrally to the District's primary mission of providing sanitary sewer service: collection and transmission of the wastewater to the treatment plant, treatment of the wastewater, and the industrial pretreatment program.

The three largest expenses in 2017, in decreasing rank by amount, were salaries and benefits, bio-solids handling and sewage treatment utilities, and depreciation of District's capital assets. General and Administrative Expenses are included in the operating expenses and quantify the cost of support services provided to the District's activities centered on its core mission. These expenses for 2017 increased by approximately \$81,699 from 2016, mainly due to planning for growth, increased customer base, operating expense inflation and strategic planning progress.

Total 2017 operating revenue (sewage treatment and other revenue) exceeded 2016 operating revenue by approximately 43%. The 2017 operating expenses (exclusive of depreciation) exceeded the 2016 operating expenses by only 5%.

**Boxelder Sanitation District  
Management's Discussion and Analysis  
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The District converted financial reporting during fiscal year 2016 to a budgetary basis. Tracking activity on a budgetary basis allows the District to follow, project, and plan for actual needs. The District continues to update the Master Plan to address area growth projections, current system rehabilitation and strategic planning. During the 2017 fiscal year, the District implemented a rate increase necessary to accommodate critical infrastructure rehabilitation, and continues to work on planning a treatment plant expansion in the next few years that is needed for the District's growth.

This financial report is designed to provide a general overview of the District's finances for all those with an interest in this matter. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's office at P. O. Box 1518, Fort Collins, CO 80522.

## Basic Financial Statements

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**Boxelder Sanitation District**  
**Statements of Net Position**

<i>December 31,</i>	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,049,541	\$ 1,521,472
Investments	6,132,531	6,084,895
Accounts receivable	498,452	299,146
Prepaid expenses	116,582	50,849
<b>Total current assets</b>	<b>11,797,106</b>	<b>7,956,362</b>
<b>Non-current assets</b>		
Restricted assets		
Cash and cash equivalents	763,668	837,663
Loan proceeds receivable	-	56,518
<b>Total restricted assets</b>	<b>763,668</b>	<b>894,181</b>
Capital assets		
Buildings and improvements	1,262,711	1,262,711
Collection and disposal system	24,436,451	16,577,295
Treatment plant	14,900,138	14,900,138
Equipment	1,690,041	1,609,079
<b>Total</b>	<b>42,289,341</b>	<b>34,349,223</b>
Less: accumulated depreciation	(9,065,364)	(8,372,057)
<b>Total</b>	<b>33,223,977</b>	<b>25,977,166</b>
Land and easements	788,480	788,480
Construction in progress	46,654	1,622,989
<b>Total capital assets, net</b>	<b>34,059,111</b>	<b>28,388,635</b>
<b>Total non-current assets</b>	<b>34,822,779</b>	<b>29,282,816</b>
<b>Total assets</b>	<b>46,619,885</b>	<b>37,239,178</b>
<b>Deferred outflows of resources</b>		
Deferred outflows of resources relating to pensions	521,216	305,930
<b>Total deferred outflows of resources</b>	<b>521,216</b>	<b>305,930</b>

*(Continued)*

**Boxelder Sanitation District**  
**Statements of Net Position**

<i>December 31,</i>	2017	2016
<b>Liabilities</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	470,000	460,000
Accounts payable	54,439	647,763
Wages payable	35,746	40,919
Other accrued expenses	406,246	145,886
Accrued interest expense	91,630	95,013
<b>Total current liabilities</b>	<b>1,058,061</b>	<b>1,389,581</b>
<b>Non-current liabilities</b>		
Accrued compensated absences	49,326	47,568
Long-term debt, net of current portion and unamortized premium	7,907,905	8,391,402
Net pension liability	1,825,393	1,510,495
<b>Total non-current liabilities</b>	<b>9,782,624</b>	<b>9,949,465</b>
<b>Total liabilities</b>	<b>10,840,685</b>	<b>11,339,046</b>
<b>Deferred inflows of resources</b>		
Deferred inflows of resources relating to pensions	5,279	27,667
<b>Total deferred inflows of resources</b>	<b>5,279</b>	<b>27,667</b>
<b>Net Position</b>		
Net investment in capital assets	25,681,206	19,537,233
Restricted		
Operations and maintenance	763,668	837,663
Loan proceeds	-	56,518
Unrestricted	9,850,263	5,746,981
<b>Total net position</b>	<b>\$ 36,295,137</b>	<b>\$ 26,178,395</b>

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

**Boxelder Sanitation District**  
**Statements of Revenues, Expenses and Changes in Net Position**

<i>For the Years Ended December 31,</i>	2017	2016
<b>Operating revenues</b>		
Sewer charges and other services	\$ 4,773,037	\$ 3,402,651
Growth revenue	11,927	11,636
Infrastructure plan reviews	-	2,800
Other revenue	193,143	62,867
<b>Total operating revenues</b>	<b>4,978,107</b>	<b>3,479,954</b>
<b>Operating expenses</b>		
General and administrative expenses	671,811	590,112
Collection and transmission	86,083	140,436
Sewage treatment	844,658	647,360
Pretreatment	10,002	25,927
Personnel costs	1,460,131	1,515,399
Depreciation expense	693,307	591,378
<b>Total operating expenses</b>	<b>3,765,992</b>	<b>3,510,612</b>
<b>Operating income (loss)</b>	<b>1,212,115</b>	<b>(30,658)</b>
<b>Non-operating revenues (expenses)</b>		
Gain on disposal of capital assets	-	19,151
Net investment income	75,562	19,361
Interest expense	(211,705)	(207,929)
<b>Total non-operating revenues (expenses)</b>	<b>(136,143)</b>	<b>(169,417)</b>
<b>Income (loss) before contributions</b>	<b>1,075,972</b>	<b>(200,075)</b>
<b>Capital contributions</b>		
System development charges	5,703,159	1,545,008
Contributed assets from developers	3,337,611	273,727
<b>Total capital contributions</b>	<b>9,040,770</b>	<b>1,818,735</b>
<b>Change in net position</b>	<b>10,116,742</b>	<b>1,618,660</b>
Net position at beginning of year	26,178,395	24,559,735
<b>Net position at end of year</b>	<b>\$ 36,295,137</b>	<b>\$ 26,178,395</b>

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

**Boxelder Sanitation District**  
**Statements of Cash Flows**

<i>For the Years Ended December 31,</i>	2017	2016
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 4,778,801	\$ 3,464,931
Cash paid to suppliers and vendors	(2,011,251)	(2,035,292)
Cash paid to employees	(1,386,322)	(1,085,055)
<b>Net cash flows from operating activities</b>	<b>1,381,228</b>	<b>344,584</b>
<b>Cash flows from capital and related financing activities</b>		
Change in restricted cash	73,995	(241,560)
System development charges received	4,361,001	1,545,692
Acquisition of capital assets	(1,684,014)	(1,968,251)
Proceeds from sale of capital assets	-	19,151
Proceeds from loan proceeds receivable	56,518	24,402
Payment of principal on long-term debt	(460,000)	(460,000)
Payment of interest on long-term debt	(228,585)	(233,243)
<b>Net cash flows from capital and related financing activities</b>	<b>2,118,915</b>	<b>(1,313,809)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(47,636)	-
Sale of investments	-	886,048
Interest received	75,562	19,361
<b>Net cash flows from investing activities</b>	<b>27,926</b>	<b>905,409</b>
<b>Net change in cash and cash equivalents</b>	<b>3,528,069</b>	<b>(63,816)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,521,472</b>	<b>1,585,288</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 5,049,541</b>	<b>\$ 1,521,472</b>
<b>Reconciliation of operating income (loss) to net cash</b>		
<b>flows from operating activities:</b>		
Operating income (loss)	\$ 1,212,115	\$ (30,658)
<b>Adjustments to reconcile operating income (loss) to net cash</b>		
<b>flows from operating activities:</b>		
Depreciation	693,307	591,378
<b>Changes in assets and liabilities:</b>		
Receivables	(199,306)	(15,023)
Inventory	-	19,721
Prepaid expenses	(65,733)	583
Accounts payable and accrued expenses	(332,964)	598,239
Accrued settlement	-	(1,250,000)
Accrued compensated absences	1,758	15,378
Net pension liability and related deferrals	77,224	388,867
Wages payable	(5,173)	26,099
<b>Net cash flows from operating activities</b>	<b>\$ 1,381,228</b>	<b>\$ 344,584</b>

*(Continued)*

**Boxelder Sanitation District**  
**Statements of Cash Flows**

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<i>For the Years Ended December 31,</i>	2017	2016
<b>Non-cash capital and financing transactions</b>		
Capital assets acquired with accounts payable, net	\$ -	\$ (105,348)
Amortization of loan premium	\$ 13,497	\$ 23,378
Capital assets received in exchange for taps	\$ 1,342,158	\$ -
Contributed capital assets	\$ 3,337,611	\$ 273,727

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

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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## **1. Summary of Significant Accounting Policies**

### *Form of Organization*

Boxelder Sanitation District (the "District") is organized under the provisions of Section 32-1-305 (6) of the Colorado Revised Statutes ("C.R.S."). It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof, which include the power to levy taxes against property within the District.

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

### *Reporting Entity*

In conformity with GASB financial reporting standards, the District is the reporting entity for financial reporting purposes. The District is the primary government financially accountable for all activities of the District. The District meets the criteria of a primary government: its Board of Directors is the publicly elected governing body; it is a legally separate entity; and it is fiscally independent. The District is not included in any other governmental reporting entity.

As defined by GAAP established by the GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's governing board, and either, a) the ability to impose its will by the primary government, or b) there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or
- 2) Fiscal dependency on the primary government and there is a potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointment by a higher level of government, or (3) a jointly appointed board.

Based on the above criteria, there are no other organizations that would be considered component units of the District. The District meets the criteria of an "other stand alone government."

### *Basic Financial Statements*

The District is a special-purpose government engaged only in business-type activities. As such, enterprise fund financial statements are presented.

### *Basis of Accounting*

Proprietary funds, which include enterprise funds, are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Therefore, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of this fund are included on the statements of net position. Revenues and expenses are recorded in the accounting period in which they are earned or incurred, and they become measurable. Net position is segregated into net investment in capital assets, restricted for operations and maintenance and loan proceeds, and

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

***Budgets and Budgetary Accounting***

An annual budget and appropriation resolution is adopted by the Board of Directors (the "Board") in accordance with state statutes. The budget is prepared on a basis consistent with GAAP except that capital asset additions and principal payments are budgeted as expenditures, debt proceeds are budgeted as revenues, and depreciation is not budgeted.

The budget process timeline is as follows:

1. On or about October 15, the District staff submits to the Board 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.
2. Public hearings are conducted at regular Board meetings to obtain taxpayer comments.
3. Prior to December 15, the budget is legally adopted by the Board if levying property taxes, or December 31 if not levying property taxes.
4. Unused appropriations lapse at the end of each year.

The following is a summary of the original budget, total revisions, and revised budget for fiscal year 2017:

	Original Budget	Total Revisions	Revised Budget
Enterprise fund expenses	\$ 9,367,701	\$ -	\$ 9,367,701

A comparison of actual operations on the accrual basis to the annual budget is not meaningful. However, a statement comparing actual (budgetary basis) to the budget is included in the other supplementary information.

The adjustments necessary to convert the actual revenue and expenditures to the budgetary basis are presented in the following schedule:

<i>Years ended December 31,</i>	2017	2016
Change in net position	\$ 10,116,742	\$ 1,618,660
Add: Depreciation expense	693,307	591,378
Proceeds from loan receivable	56,518	24,402
Pension related expenses	77,224	388,867
Other adjustments	-	11,109
Less: Principal paid on long-term debt	(460,000)	(460,000)
Other adjustments	(80,855)	-
Capital assets received in exchange for taps	(1,342,158)	-
Developer contributions of capital assets	(3,337,611)	(273,727)
Settlement payment	-	(1,250,000)
Capital outlay	(1,684,014)	(1,862,903)
Excess of expenditures over revenues (budgetary basis)	\$ 4,039,153	\$ (1,212,214)

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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*Cash and Cash Equivalents*

The District considers all highly liquid investments with original maturities of three months or less which are available for operating expenditures to be cash equivalents.

*Investments*

Investments, consisting of funds invested in a local government investment pool (Note 2), are measured at net asset value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

*Allowance for Doubtful Accounts*

User and other similar fees set from time to time by the District's governing board constitute a perpetual lien on or against the property served until paid. Such liens may be foreclosed in the same manner as provided by the laws of the State of Colorado. Therefore, no provision for uncollectible receivables is considered necessary.

*Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

*Capital Assets*

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 valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Description	Years
Buildings and improvements	7 - 20
Collection and disposal system	50 - 100
Treatment plant	50
Equipment	3 - 10

*Accrued Compensated Absences Payable*

Obligations associated with the District's vacation policy are recorded as a liability and expense when earned to the extent that such benefits vest to the employee. The amount of the accrued and unpaid balance due under this policy is considered a long-term liability. The District has recorded a liability of \$49,326 and \$47,568 at December 31, 2017 and 2016, respectively.

*Debt Issuance Costs*

Debt issuance costs are recognized as an expense during the period of issuance.

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*Debt Related Deferrals*

Premiums and discounts are deferred and amortized to interest expense over the life of the debt using the effective interest method. The net premiums and discounts are presented as an adjustment to the face amount of the debt.

*Deferred Outflows/Inflows of Resources*

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred inflows of resources related to pensions (see Note 6).

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to pensions (see Note 6).

*Net Position*

Net position is classified in the following categories:

*Net Investment in Capital Assets* - This category groups all capital assets into one component of net position. Accumulated depreciation of these assets and related debt balances reduce this category.

*Restricted Net Position* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Position* - This category represents the net position of the District, which is not restricted for any project or other purpose. A deficit will require future funding.

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

*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 in PERA are reported at fair value.

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*Operating Revenue - Sewer Charges*

Charges for sewer service consist primarily of charges monthly for services provided to residential and commercial customers within the District's boundaries.

*Connection Fees*

Customers may purchase a Wastewater Discharge Right ("WDR") by paying a System Development Charge ("SDC"). The SDC for nonresidential customers is based upon their water meter size and for residential customers it was \$12,000 and \$10,000 per single family residential unit, for the years ended December 31, 2017 and 2016, respectively.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material.

**2. Cash and Investments**

*Custodial Credit Risk - Deposits*

Colorado state statutes govern the entity's deposits of cash. For deposits in excess of federally insured limits, C.R.S. requires the depository institution to maintain collateral on deposit with an official custodian (as authorized by the State Banking Board). The Colorado Public Deposit Protection Act ("PDPA") requires state regulators to certify eligible depositories for public deposit. PDPA requires the eligible depositories with public deposits in excess of the federal insurance levels to create a single institutional collateral pool of obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. 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 assets in the pool must be at least 102% of the uninsured deposits. At December 31, 2017 and 2016, the District had deposits with a financial institution with carrying amounts of \$5,813,059 and \$2,358,985, respectively. The bank balances with the financial institution were \$6,059,722 and \$2,272,731, respectively. Of these amounts, \$250,000 was covered by federal depository insurance. The remaining balances of \$5,809,722 and \$2,022,731, respectively, were collateralized with securities held by the financial institutions' agents but not in the District's name.

Cash and cash equivalents, including restricted cash and cash equivalents, held by the District at December 31, were as follows:

	2017	2016
Cash on hand	\$ 150	\$ 150
Cash on deposit with financial institution	5,813,059	2,358,985
<b>Total cash and cash equivalents</b>	<b>\$ 5,813,209</b>	<b>\$ 2,359,135</b>

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*Restricted Assets*

Amounts shown as restricted cash and cash equivalents have been restricted by loan indentures to be used for specified purposes. The balance restricted as of December 31, 2017 and 2016, was \$763,668 and \$837,663, respectively.

*Investments*

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which special districts may invest which include:

- Certificates of deposit with an original maturity in excess of three months;
- Certain obligations of the United States and U.S. Government agency securities;
- Certain international agency securities;
- General obligation and revenue bonds of U.S. local government entities;
- Banker's acceptance of certain banks;
- Commercial paper;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market funds;
- Guaranteed investment contracts;
- Local government investment pools.

District policy is to match maturity of investments with cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than three (3) years from the date of purchase or in accordance with state and local statutes and ordinances.

*Custodial Credit Risk - Investments*

Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2017 and 2016, none of the District's investments were exposed to custodial credit risk.

*Interest Rate Risk*

The District's written investment policy limits investment maturities to five years or less from the date of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Local Government Investment Pool*

As of December 31, 2017 and 2016, the District had invested \$6,132,531 and \$6,084,895 respectively in the Colorado Local Government Liquid Asset Trust (the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission 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. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. COLOTRUST PRIME invests only in U.S. Treasury and government agencies. COLOTRUST PLUS+ can invest in U.S. Treasury, government agencies, and in the highest-rate commercial paper. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as a 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. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period. The Trust is rated AAAM by Standard and Poor's and is measured at net asset value.

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**3. Capital Assets**

The following is a summary of capital asset activities for the year ended December 31, 2017:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
<b>Capital assets, not being depreciated:</b>				
Land and easements	\$ 788,480	\$ -	\$ -	\$ 788,480
Construction in progress	1,622,989	5,299,471	(6,875,806)	46,654
<b>Total capital assets, not being depreciated</b>	<b>2,411,469</b>	<b>5,299,471</b>	<b>(6,875,806)</b>	<b>835,134</b>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	1,262,711	-	-	1,262,711
Collection and disposal system	16,577,295	7,859,156	-	24,436,451
Treatment plant	14,900,138	-	-	14,900,138
Equipment	1,609,079	80,962	-	1,690,041
<b>Total capital assets, being depreciated</b>	<b>34,349,223</b>	<b>7,940,118</b>	<b>-</b>	<b>42,289,341</b>
Less accumulated depreciation	(8,372,057)	(693,307)	-	(9,065,364)
<b>Total capital assets, being depreciated, net</b>	<b>25,977,166</b>	<b>7,246,811</b>	<b>-</b>	<b>33,223,977</b>
<b>Total capital assets, net</b>	<b>\$28,388,635</b>	<b>\$12,546,282</b>	<b>\$ (6,875,806)</b>	<b>\$34,059,111</b>

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The following is a summary of capital asset activities for the year ended December 31, 2016:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
<b>Capital assets, not being depreciated:</b>				
Land and easements	\$ 717,489	\$ -	\$ 70,991	\$ 788,480
Construction in progress	1,668,494	1,572,251	(1,617,756)	1,622,989
<b>Total capital assets, not being depreciated</b>	<b>2,385,983</b>	<b>1,572,251</b>	<b>(1,546,765)</b>	<b>2,411,469</b>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	1,235,044	27,667	-	1,262,711
Collection and disposal system	14,720,098	1,928,188	(70,991)	16,577,295
Treatment plant	14,981,618	-	(81,480)	14,900,138
Equipment	1,391,331	225,596	(7,848)	1,609,079
<b>Total capital assets, being depreciated</b>	<b>32,328,091</b>	<b>2,181,451</b>	<b>(160,319)</b>	<b>34,349,223</b>
Less accumulated depreciation	(7,870,007)	(591,378)	89,328	(8,372,057)
<b>Total capital assets, being depreciated, net</b>	<b>24,458,084</b>	<b>1,590,073</b>	<b>(70,991)</b>	<b>25,977,166</b>
<b>Total capital assets, net</b>	<b>\$ 26,844,067</b>	<b>\$ 3,162,324</b>	<b>\$ (1,617,756)</b>	<b>\$ 28,388,635</b>

#### 4. Long Term Debt

##### *Water Pollution Control Revolving Fund*

In October 2010, the District entered into a loan agreement (the "Agreement") with the Colorado Water Resource and Power Development Authority ("CWR & PDA") for a principal amount of \$10,410,000, plus a premium of \$390,000 for total proceeds of \$10,800,000. The loan accrues interest at 2.5%, and is payable in semi-annual principal and interest payments, beginning on February 1, 2012. The loan is secured by the net revenues of the District, as defined within the Agreement.

A summary of changes in long-term liabilities for the year ended December 31, 2017 was as follows:

2017 Schedule

	Beginning Balance	Additions	Retirements	Ending Balance
2010 CWR & PDA Loan	\$8,615,000	\$ -	\$ (460,000)	\$8,155,000
Current portion of long-term debt	(460,000)	(10,000)	-	(470,000)
Unamortized premium	236,402	-	(13,497)	222,905
Noncurrent portion of long-term debt	8,391,402	(10,000)	(473,497)	7,907,905
Accrued compensated absences	47,568	58,938	(57,180)	49,326

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Loan requirements to maturity are as follows:

<i>Year ending December 31,</i>	Principal	Interest	Administrative Fee	Total
2018	\$ 470,000	\$ 137,111	\$ 83,280	\$ 690,391
2019	485,000	125,077	83,280	693,357
2020	495,000	113,537	83,280	691,817
2021	505,000	102,447	83,280	690,727
2022	515,000	91,273	83,280	689,553
2023-2027	2,675,000	361,298	416,400	3,452,698
2028-2032	3,010,000	139,549	301,890	3,451,439

A summary of changes in long-term liabilities for the year ended December 31, 2016 was as follows:

2016 Schedule

	Beginning Balance	Additions	Retirements	Ending Balance
2010 CWR & PDA Loan	\$ 9,075,000	\$ -	\$ (460,000)	\$ 8,615,000
Current portion of long-term debt	(460,000)	-	-	(460,000)
Unamortized premium	259,780	-	(23,378)	236,402
Noncurrent portion of long-term debt	8,874,780	-	(483,378)	8,391,402
Accrued compensated absences	32,190	39,103	(23,725)	47,568

## 5. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors and omissions, or natural disasters. The District maintains commercial insurance coverage to mitigate these risks of loss. Settled claims have not exceeded this commercial insurance coverage in any of the past three years.

## 6. Public Employees' Retirement Association of Colorado

### *Plan description*

Eligible employees of the District are provided with pensions through the Local Government Division Trust Fund—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes 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](http://www.copera.org/investments/pera-financial-reports).

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*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 CRS § 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 receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

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

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.

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*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 CRS § 24-51-401, *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:

	Rate
Employer Contribution Rate <sup>1</sup>	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in CRS § 24-51-208(1)(f) <sup>1</sup>	(1.02)%
Amount Apportioned to the LGDTF <sup>1</sup>	8.98%
Amortization Equalization Disbursement (AED) as specified in CRS § 24-51-411 <sup>1</sup>	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS 24-51-411 <sup>1</sup>	1.50%
<b>Total Employer Contribution Rate to the LGDTF<sup>1</sup></b>	<b>12.68%</b>

<sup>1</sup>Rates are expressed as a percentage of salary as defined in CRS § 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 \$130,044 and \$103,895, respectively, for the years ended December 31, 2017 and 2016.

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

At December 31, 2017 and 2016, the District reported a liability of \$1,825,393 and \$1,510,495, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2016 and 2015. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2016 and 2015 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2017, the District's proportion was .13518 percent, which was a decrease of .00194 percent from its proportion measured as of December 31, 2016. At December 31, 2016, the District's proportion was 0.13712 percent, which was an increase of .02125 from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017 and 2016, the District recognized pension expense of \$217,729 and \$284,768, respectively.

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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
Differences between expected and actual experience	\$ 32,484	\$ -
Changes of assumptions or other inputs	129,478	5,279
Net difference between projected and actual earnings on pension plan investments	219,222	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	9,988	-
District contributions subsequent to the measurement date	130,044	-
<b>Total</b>	<b>\$ 521,216</b>	<b>\$ 5,279</b>

The \$130,044 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,	Amortization
2018	\$ 225,565
2019	95,865
2020	63,299
2021	1,164
	<b>\$ 385,893</b>

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At December 31, 2016, 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
Differences between expected and actual experience	\$ 11,281	\$ -
Changes of assumptions or other inputs	-	27,667
Net difference between projected and actual earnings on pension plan investments	82,369	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	108,385	-
District contributions subsequent to the measurement date	103,895	-
<b>Total</b>	<b>\$ 305,930</b>	<b>\$ 27,667</b>

*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 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 - 10.85 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 - 10.45 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent

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Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
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 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 percent factor applied to male rates and a 55 percent 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 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.
- **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 assumptions changed, effective December 31, 2016, as follows:

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- 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 the November 18, 2016 adoption of the current 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:

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%
<b>Total</b>	<b>100.00%</b>	

\* 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.

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- 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 3.50%.
- 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.
- 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 the 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 District's proportionate share of the net pension liability to changes in the discount rate*

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.250 percent, as well as what the District's proportionate share of the net

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
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pension liability/(asset) 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%)
District's proportionate share of the net pension liability	\$ 2,691,458	\$ 1,825,393	\$ 1,108,196

*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](http://www.copera.org/investments/pera-financial-reports).

**7. Postemployment Healthcare Benefits**

*Plan description*

The District contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, 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](http://www.copera.org/investments/pera-financial-reports).

*Funding policy*

The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the CRS, as amended. For the years ended December 31, 2017, 2016, and 2015, the District's contributions to the HCTF were \$10,461, \$8,357 and \$7,290, respectively, equal to their required contributions for each year.

**8. Voluntary Investment Program**

*Plan description*

Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary and contributions are separate from other contributions made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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*Funding policy*

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the CRS, as amended. In addition, the District has agreed to match employee contributions up to 3 percent of covered salary as determined by the Internal Revenue Service. Employees are immediately vested in their own contributions, employer contributions and investment earnings. The District did not make a contribution on behalf of eligible members during the years ended December 31, 2017 and 2016.

## **9. TABOR Compliance**

In November 1992, Colorado voters passed an amendment (the "Amendment" or "TABOR") to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the Amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The Amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the entity under specified voting requirements by the entire electorate.

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

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

## **10. Commitments and Contingencies**

*Contractual Obligations*

On May 9, 2016 the District signed a contract with a construction company to complete a pipeline project for a total contract price, including change orders, of \$2,353,500. As of December 31, 2017 there were no remaining construction commitments.

*Litigation*

The District was subject to various claims and legal proceedings arising in the ordinary course of business. The District believes that adequate insurance coverage exists in situations where monetary damages are claimed and that the final settlements of these matters will not materially affect the financial statements of the District.

**Boxelder Sanitation District**  
**Notes to Financial Statements**  
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**11. Related Party Transactions**

On January 16, 2008, the District entered into an agreement with North Timnath Properties, LLC (“NTP”), partially owned by a current director of the Board. NTP had constructed a pipeline and the District agreed to pay NTP \$868 per tap on this pipeline until the construction of the pipeline is paid back. During the years ended December 31, 2017 and 2016 the District paid \$37,758 and \$13,020 respectively directly to the director of the Board. There was \$65,968 and \$8,680 payable to the director of the Board at December 31, 2017 and 2016, respectively.

**12. Subsequent Events**

The District has evaluated subsequent events through June 18, 2018, the date that the financial statements were available to be issued. No additional events or transactions requiring adjustment or disclosure were noted.

## Required Supplementary Information

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**Boxelder Sanitation District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**Last Ten Years**

	2017	2016	2015	2014
District's proportion of the net pension liability	0.13518%	0.13712%	0.11587%	0.10705%
District's proportionate share of the net pension liability	\$ 1,825,393	\$ 1,510,495	\$ 1,038,533	\$ 800,118
District's covered payroll	\$ 819,361	\$ 800,562	\$ 637,542	\$ 587,398
District's proportionate share of the net pension liability as a percentage of its covered payroll	222.78%	188.68%	162.90%	136.21%
Plan fiduciary net position as a percentage of the total pension	73.60%	76.90%	80.70%	77.66%

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

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

*See accompanying Independent Auditor's Report.*

**Boxelder Sanitation District**  
**Schedule of District Contributions**  
**Last Ten Years**

	2017	2016	2015	2014	2013
Statutorily Required Contribution	\$ 130,044	\$ 103,895	\$ 98,452	\$ 80,506	\$ 72,417
Contributions in Relation to the Statutorily Required Contribution	130,044	103,895	98,452	80,506	72,417
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,025,579	\$ 819,361	\$ 800,562	\$ 637,542	\$ 587,398
Contributions as a Percentage of Covered Employee Payroll	12.68%	12.68%	12.30%	12.63%	12.33%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

*See accompanying Independent Auditor's Report.*

## Other Supplementary Information

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**Boxelder Sanitation District**  
**Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)**  
**For the Year Ended December 31, 2017**  
**With Comparative Actual Amounts for the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual Amounts Budget Basis	Variance with Final Budget Positive (Negative)	2016 Actual
<b>Revenues</b>					
Sewer charges and other services	\$ 4,934,286	\$ 4,934,286	\$ 4,773,037	\$ (161,249)	\$ 3,402,651
Growth revenue	27,935	27,935	11,927	(16,008)	11,636
Infrastructure plan reviews	2,600	2,600	-	(2,600)	2,800
Other revenue	62,843	62,843	193,143	130,300	62,867
Net investment income	21,415	21,415	75,562	54,147	19,361
Proceeds from sale of capital assets	-	-	-	-	19,151
Proceeds from loan receivable	-	-	56,518	56,518	24,402
System development charges	1,200,000	1,200,000	4,361,001	3,161,001	1,545,008
<b>Total revenues</b>	<b>6,249,079</b>	<b>6,249,079</b>	<b>9,471,188</b>	<b>3,222,109</b>	<b>5,087,876</b>
<b>Expenditures</b>					
Collection and transmission	224,981	224,981	86,083	138,898	140,436
Sewage treatment	799,954	799,954	844,658	(44,704)	647,360
Pretreatment	45,838	45,838	10,002	35,836	25,927
General and administrative	718,255	718,255	752,666	(34,411)	579,003
Personnel related costs	1,265,645	1,265,645	1,382,907	(117,262)	1,126,532
Debt service:					
Principal paid	460,000	460,000	460,000	-	460,000
Interest expense	228,528	228,528	211,705	16,823	207,929
Settlement expense	-	-	-	-	1,250,000
Capital outlay	5,624,500	5,624,500	1,684,014	3,940,486	1,862,903
<b>Total expenditures</b>	<b>9,367,701</b>	<b>9,367,701</b>	<b>5,432,035</b>	<b>3,935,666</b>	<b>6,300,090</b>
<b>(Deficiency) of revenues over expenditures</b>	<b>\$ (3,118,622)</b>	<b>\$ (3,118,622)</b>	<b>\$ 4,039,153</b>	<b>\$ 7,157,775</b>	<b>\$ (1,212,214)</b>

*See accompanying Independent Auditor's Report.*