

MID VALLEY METROPOLITAN
DISTRICT

FINANCIAL STATEMENTS
December 31, 2016



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Logan and Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid Valley Metropolitan District
Basalt, Colorado

We have audited the accompanying financial statements of the Mid Valley Metropolitan District as of and for the year ended December 31, 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 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 Mid Valley Metropolitan District as of December 31, 2016, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i – v 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 Mid Valley Metropolitan 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
June 21, 2017

**MID VALLEY METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2016**

This management's discussion and analysis of the Mid Valley Metropolitan District's (MVMD) financial statements provide an overview of the District's financial activities for the fiscal year ending December 31, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial and operational performance.

Growth within Mid Valley Metro District continued in 2016 enabling us once again to improve the District's financial position. One time system development fees (tap fees) and the resulting increase in monthly services charges for new properties coming online allow us to increase our capital and operating fund balances. This has allowed us to maintain a strong cash position to support future long term water and wastewater processes, replacement and repair of existing capital items and new capital projects as needed.

Willits Town Center continues to build out with the completion of Blocks 7N and 7S bringing on 77 total units. The Shadowrock development started two new buildings (6 units) and Crawford Properties will bring on an additional 41 residential units and additional commercial later in the year. Park Modern on Evans Court has an addition 14 units under construction and another building in design. In addition, there are several other proposed projects in various stages of approval underway, all which will add to the District.

Operationally, we continue to control expenses within budget and continue to work on improving oversight and maintenance practices. We are aggressively increasing water loss controls and inspection, backflow audits and valve exercising programs in 2017 as we improve our preventive maintenance programs.

The District is in a healthy position, both operationally and financially.

Financial Highlights

The assets of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$14,507,576 (the Statement of Net Position). Of this amount \$8,860,476 was invested in capital assets of the District and may not be used to meet the District's ongoing obligations to citizens and creditors.

In 2016, the District's total net position increased by \$794,981.

Overview of the Financial Statements

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *supplementary information*. The basic financial statements include *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements consist of the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. These statements report information about the District as a whole and include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, *increases or decreases* in the District's Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, however, such as changes in the district's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District.

The Statement of Revenues, Expenses, and Changes in Net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods such as 'deferred property taxes'.

The District's activity is reported as a business-type fund, which distinguishes operating revenues and expenses from non-operating items. This one proprietary fund combines the revenues and expenses of the water and wastewater operations as operating revenues and expenses. Not all revenues and expenses are considered operating, including property and specific ownership taxes and interest income are also reported as non-operating revenues. In addition, system development fees are reported as capital contributions, following non-operating revenues and expenses.

Statement of Net Position

By far the largest portion of the District's Net Position (61%) reflects its investment in capital assets (e.g. land, water rights, distribution/ collection systems, water augmentation, vehicles, irrigation systems and furniture and fixtures. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

During the year, the District had increases in revenues while expenses remained below budget.

Comparative Statements of Net Position as of December 31:

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current and Other Assets	\$ 5,864,986	\$ 4,915,026
Capital Assets, Net	<u>8,860,476</u>	<u>9,055,245</u>
Total Assets	<u>14,725,462</u>	<u>13,970,271</u>
<u>LIABILITIES</u>		
Current Liabilities	<u>186,602</u>	<u>227,382</u>
Total Liabilities	<u>186,602</u>	<u>227,382</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Property Tax Revenue	31,284	30,294
<u>NET POSITION</u>		
Net Investment in Capital Assets	8,860,476	9,055,245
Restricted for Emergencies	43,000	46,000
Restricted for Conservation Trust	41,927	30,609
Unrestricted	<u>5,562,173</u>	<u>4,580,741</u>
Total Net Position	<u>\$ 14,507,576</u>	<u>\$ 13,712,595</u>

Comparative Statements of Revenues, Expenses, and Changes in Net Position as of December 31:

	<u>2016</u>	<u>2015</u>
<u>REVENUES</u>		
OPERATING REVENUES		
Charges for Services		
Water system	\$ 453,979	\$ 427,385
Waste Water System	823,630	795,163
Miscellaneous	<u>12,579</u>	<u>7,685</u>
Total Operating Revenues	1,290,188	1,230,233
OPERATING EXPENSES		
Water System	220,874	191,036
Waste Water System	235,326	265,050
Administration	485,621	536,328
Depreciation	<u>489,623</u>	<u>539,651</u>
Total Operating Expenses	<u>1,431,444</u>	<u>1,532,065</u>
Operating Income (Loss)	<u>(141,256)</u>	<u>(301,832)</u>
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	30,371	28,183
Specific Ownership Taxes	1,436	1,469
Conservation Trust Fund	11,314	9,660
Investment Income	<u>62,694</u>	<u>56,554</u>
Total Non-Operating Revenues (Expenses)	<u>105,815</u>	<u>95,866</u>
Income (Loss) Before Capital Contributions	<u>(35,441)</u>	<u>(205,966)</u>
CAPITAL CONTRIBUTIONS		
System Development Fees - Water	279,127	262,823
System Development Fees - Waste Water	<u>551,295</u>	<u>490,708</u>
Total Capital Contributions	<u>830,422</u>	<u>753,531</u>
Change in Net Position	<u>794,981</u>	<u>547,565</u>
Net Position, Beginning of Year	<u>13,712,595</u>	<u>13,165,030</u>
NET POSITION, END OF YEAR	<u>\$ 14,507,576</u>	<u>\$ 13,712,595</u>

The District's three primary sources of revenues are from charges for services, system development fees and taxes. These revenues are used to pay the cost of the general government and the cost of the water and waste water systems. The District operated with an increase in Net Position in both 2016 and 2015.

Budgetary Highlights

The District's procedures in establishing budgetary data reflected in the financial statements are summarized in *Note 2* of the financial statements. The budget to actual comparison is presented in the supplemental information on pages 14 to 16 of the financial statements.

Resources (Inflows)

The District's final budgetary revenues and other financing sources in the amount of \$2,226,425 were less than budget expectations of \$2,342,169 by \$115,744, or 5%. The negative variance is the result of reduced water and waste water system development fees.

Charges to Appropriations (Outflows)

The District's final budgetary expenditures and other financing uses in the amount of \$1,236,675 were \$832,534 less than the appropriated balance of \$2,069,209. Significant savings occurred in budgeted water system and waste water system capital expenditures.

Capital Assets

During 2016, the District had additions of \$294,854 to its capital assets. The significant additions included the completion of the wastewater treatment plant expansion, Crown Mountain well #6, and purchase of a mini excavator and trailer. Current year depreciation of \$489,623 was a decrease of \$50,028 from the prior year, primarily related to some assets being fully depreciated in the prior year. Total capital assets balance at December 31, 2016 was \$8,860,476. See Note 5.

Contacting the District's Financial Management

This financial report is designed to provide our residents, customers, taxpayers, and creditors with a general overview of the District's financials and to show the District's accountability for the income it receives. If you have any questions regarding this report or need additional financial information, please contact the:

Mid Valley Metropolitan District Manager
0031 Duroux Lane, Suite A
Basalt, CO 81621
Tel: (970) 927-4077
Fax: (970) 927-1017
Email: mvmd@sopris.net

BASIC FINANCIAL STATEMENTS

MID VALLEY METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

December 31, 2016

	<u>BUSINESS-TYPE ACTIVITIES</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 1,799,579
Investments - Short-term	2,062,871
Accounts Receivable - Service Charges	165,255
Accounts Receivable - Tap Fees	415,275
Accounts Receivable - Other	54,161
Property Taxes Receivable	31,284
Purchased Tap Fees, Current Portion	75,946
Prepaid Insurance	29,368
Security Deposits	175
Total Current Assets	<u>4,633,914</u>
Noncurrent Assets	
Purchased Tap Fees Receivable	<u>1,231,072</u>
Capital Assets	
Capital Assets, Not Being Depreciated	578,071
Capital Assets, Net of Accumulated Depreciation	8,282,405
Total Capital Assets	<u>8,860,476</u>
TOTAL ASSETS	<u>14,725,462</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	16,338
Accrued Salaries, Wages and Related Liabilities	15,165
Inspection and Line Extension Deposits	148,157
Compensated Absences Payable - Current Portion	6,942
TOTAL LIABILITIES	<u>186,602</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Taxes	<u>31,284</u>
NET POSITION	
Investment in Capital Assets	8,860,476
Restricted for Emergency Reserve	43,000
Restricted for Conservation Trust Fund	41,927
Unrestricted	5,562,173
TOTAL NET POSITION	<u><u>\$ 14,507,576</u></u>

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

MID VALLEY METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
 Year Ended December 31, 2016

	<u>BUSINESS-TYPE ACTIVITIES</u>
OPERATING REVENUES	
Charges for Services	
Water System	\$ 453,979
Waste Water System	823,630
Miscellaneous	12,579
	<hr/>
TOTAL OPERATING REVENUES	1,290,188
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OPERATING EXPENSES	
Water System	220,874
Waste Water System	235,326
Administration	485,621
Depreciation	489,623
	<hr/>
TOTAL OPERATING EXPENSES	1,431,444
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OPERATING INCOME (LOSS)	(141,256)
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NON-OPERATING REVENUES (EXPENSES)	
Property Taxes	30,371
Specific Ownership Taxes	1,436
Conservation Trust Fund	11,314
Investment Income	62,694
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TOTAL NON-OPERATING REVENUES (EXPENSES)	105,815
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INCOME BEFORE CAPITAL CONTRIBUTIONS	(35,441)
	<hr/>
CAPITAL CONTRIBUTIONS	
System Development Fees - Water	279,127
System Development Fees - Waste Water	551,295
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TOTAL CAPITAL CONTRIBUTIONS	830,422
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CHANGE IN NET POSITION	794,981
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NET POSITION, Beginning	13,712,595
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NET POSITION, Ending	<u>\$ 14,507,576</u>

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

MID VALLEY METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
Year Ended December 31, 2016

	<u>BUSINESS-TYPE ACTIVITIES</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,412,292
Miscellaneous Receipts	12,579
Cash Payments to Employees	(316,208)
Cash Payments to Suppliers	(676,729)
Net Cash Provided by Operating Activities	<u>431,934</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property Taxes Received	30,371
Specific Ownership Taxes Received	1,442
Net Cash Provided by Non-Capital Financing Activities	<u>31,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash Received from Purchased Tap Fees Receivable	79,988
Acquisition of Capital Assets	(294,854)
Cash Received from Conservation Trust Fund	11,314
System Development Fees Received	415,147
Net Cash Provided by Capital and Related Financing Activities	<u>211,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>63,616</u>
Increase in Cash and Cash Equivalents	738,958
CASH AND CASH EQUIVALENTS, Beginning	<u>3,123,492</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 3,862,450</u>
SUMMARY OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	\$ 1,799,579
Investments - Short-term	<u>2,062,871</u>
Total Cash and Cash Equivalents	<u>\$ 3,862,450</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (141,256)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	489,623
Changes in Assets and Liabilities	
Accounts Receivable - Service Charges	107,784
Accounts Receivable - Other	16,899
Prepaid Insurance	(336)
Accounts Payable	(47,023)
Accrued Salaries and Benefits	(139)
Inspection and Line Extension Deposits	10,000
Compensated Absences Payable	(3,618)
Net Cash Provided by Operating Activities	<u>\$ 431,934</u>

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

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mid Valley Metropolitan 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 eastern Garfield and western Eagle Counties including portions of western Basalt, Colorado. The District was established to provide water and waste water services to the District residents. The District is governed by an elected five 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 water and waste water 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.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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. Investments are reported at fair value.

Accounts 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.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

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 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.

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.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

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

Buildings, Collection and Transmission Systems and Treatment Plants	5 - 40 years
Vehicles	10 years
Furniture and Equipment	5 - 10 years

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 up to a maximum limit upon separation of employment subject to restrictions set forth in the District's policy manual. 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.

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, 2016.

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:

- Investment in Capital Assets - The investment in capital assets consists of capital assets, net of accumulated depreciation.
- 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."

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes attach as an enforceable lien on property on January 1 and are levied the following January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the District on a monthly basis. Since property taxes are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are reported at December 31.

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, 2016 through June 21, 2017, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

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:

- 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.
- In September, 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.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets and Budgetary Accounting (Continued)

- 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.
- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at December 31, 2016, follows:

Petty Cash	\$ 150
Cash Deposits	1,799,429
Investments	<u>2,062,871</u>
Total	<u>\$ 3,862,450</u>

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

Cash and Cash Equivalents	\$ 1,799,579
Investments – Short-term	<u>2,062,871</u>
Total	<u>\$ 3,862,450</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. 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, 2016, the District had bank deposits totaling \$1,813,077 of which \$1,313,077, were collateralized with securities held by the financial institutions' agents but not in their name.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following. State statute does not address custodial risk.

- 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

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. District management limits the weighted average of maturity of its portfolios to no more than three years.

The District measures and records its investments using fair market value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investment in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

Colotrust is an external investment pool that records its investments at fair value. The investment in Colotrust is categorized as a Level 2 investment.

Local Government Investment Pool - At December 31, 2016, the District had \$2,062,871 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4: PURCHASED TAP FEES RECEIVABLE

The District has three (3) tap fee agreements for purchased sewer taps with third parties. The terms of the agreements are as follows:

Sewer tap fees for 370.26 EQRs for \$1,421,214, with monthly principal and interest payments of \$8,231 through December 2033. Interest accrues at the prime rate, currently at 3.25%, recalculated each January.

Sewer tap fees for 2 EQRs for \$8,958, with monthly principal only payments of \$249 through October 2016. Interest will be earned if payments become over 60 days delinquent.

Sewer tap fees for 6 EQRs for \$63,318 and \$19,200 for past due service charges with monthly principal only payments of \$1,719, increased to \$1,800 in July 2014, through November 2017. Interest will be earned if payments become delinquent.

Annual purchased tap fees receivables at December 31, 2016 are as follows:

<u>For the year ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 75,946	\$ 41,031	\$ 116,977
2018	59,648	39,127	98,775
2019	61,616	37,159	98,775
2020	63,649	35,126	98,775
2021	65,748	33,027	98,775
2022 - 2026	362,741	131,132	493,873
2027 - 2031	426,653	67,220	493,873
2032 - 2033	<u>191,017</u>	<u>6,533</u>	<u>197,550</u>
Total	<u>\$ 1,307,018</u>	<u>\$ 390,355</u>	<u>\$ 1,697,373</u>

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, is summarized below:

	Balances 12/31/2015	Additions	Deletions	Balances 12/31/2016
Capital Assets, not being depreciated				
Land	\$ 303,487	\$ -	\$ -	\$ 303,487
Water Rights	274,584	-	-	274,584
Total Capital Assets, not being depreciated	<u>578,071</u>	<u>-</u>	<u>-</u>	<u>578,071</u>
Capital Assets, being depreciated				
Water Treatment Plant	4,552,586	124,551	-	4,677,137
Waste Water Treatment Plant	10,746,828	90,351	-	10,837,179
Water Augmentation	127,980	-	-	127,980
Irrigation System	124,458	-	-	124,458
Vehicles	266,422	78,003	-	344,425
Furniture and Equipment	80,273	1,949	-	82,222
Total Capital Assets, being depreciated	<u>15,898,547</u>	<u>294,854</u>	<u>-</u>	<u>16,193,401</u>
Less accumulated depreciation				
Water Treatment Plant	(2,945,246)	(157,070)	-	(3,102,316)
Waste Water Treatment Plant	(4,074,626)	(298,815)	-	(4,373,441)
Water Augmentation	(67,190)	(5,665)	-	(72,855)
Irrigation System	(124,458)	-	-	(124,458)
Vehicles	(160,340)	(20,242)	-	(180,582)
Furniture and Equipment	(49,513)	(7,831)	-	(57,344)
Total accumulated depreciation	<u>(7,421,373)</u>	<u>(489,623)</u>	<u>-</u>	<u>(7,910,996)</u>
Total Capital Assets, being depreciated, net	<u>8,477,174</u>	<u>(194,769)</u>	<u>-</u>	<u>8,282,405</u>
Total Capital Assets, net	<u>\$ 9,055,245</u>	<u>\$ (194,769)</u>	<u>\$ -</u>	<u>\$ 8,860,476</u>

Depreciation expense was charged to the programs of the District as follows:

Water System	\$ 157,070
Waste Water System	298,815
Administration	<u>33,738</u>
Total	<u>\$ 489,623</u>

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6: RETIREMENT COMMITMENTS

Defined Contribution Pension Plan

The District has a 403(b) single employer defined contribution pension plan available to its employees. The Plan is administered by Primerica Shareholder Services. The District is not required to match employee contributions to the Plan. Employees become 100% vested in the District's contributions and earnings immediately. For the year ended December 31, 2016, employee contributions were \$14,824 and the District recognized pension expense of \$1,800.

NOTE 7: 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. 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.

MID VALLEY METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES

Operating Lease

The District leases office space on a month-to-month basis for its administrative operations. The original lease, dated September 17, 2002, was extended for two years on April 1, 2013 and extended again on April 1, 2015, maturing March 31, 2017. Monthly lease payments of \$1,201 are due the 1st day of each month. Total lease expense paid for the year ended December 31, 2016 was \$14,412. Following are the remaining required lease payments for each of the years ending December 31:

2017	<u>\$ 3,603</u>
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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, 2016, the emergency reserve of \$43,000, was reported as a restriction of net position in the statement of net position.

SUPPLEMENTARY INFORMATION

MID VALLEY METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2016

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Water System			
Water Service Charges	\$ 466,000	\$ 453,979	\$ (12,021)
System Development Fees	297,792	279,127	(18,665)
Waste Water System			
Sewer Service Charges	817,500	823,630	6,130
System Development Fees	664,008	551,295	(112,713)
Taxes			
Property Taxes	30,394	30,371	(23)
Specific Ownership Taxes	1,363	1,436	73
Conservation Trust Fund	10,000	11,314	1,314
Investment Income	49,231	62,694	13,463
Miscellaneous	5,881	12,579	6,698
TOTAL REVENUES	2,342,169	2,226,425	(115,744)
EXPENDITURES			
Water System			
Source of Supply	44,000	35,008	8,992
Treatment	144,350	113,362	30,988
Transmission and Distribution	39,500	52,598	(13,098)
Non-routine	87,000	17,677	69,323
Non-capital expenditures	20,000	2,229	17,771
Capital Outlay	247,500	124,551	122,949
Total Water System	582,350	345,425	236,925
Waste Water System			
Collection and Transmission	20,200	14,631	5,569
Treatment	184,000	162,182	21,818
Sludge	55,000	56,625	(1,625)
Non-capital expenditures	20,000	1,888	18,112
Capital Outlay	544,000	100,050	443,950
Total Waste Water System	823,200	335,376	487,824

(Continued)

See the accompanying Independent Auditor's Report.

MID VALLEY METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS
 Year Ended December 31, 2016

EXPENDITURES (Continued)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
Administration			
Salaries and Benefits	\$ 342,800	\$ 312,451	\$ 30,349
Advertising	2,500	499	2,001
Accounting and Auditing	21,000	23,583	(2,583)
Bank and Credit Card Fees	9,000	9,021	(21)
Bond Trustee Fees	150	-	150
Communications	6,500	5,352	1,148
County Treasurers Fees	909	892	17
Directors Fees	6,500	5,200	1,300
Dues and Subscriptions	5,000	4,427	573
Engineering and Consulting	30,000	25,142	4,858
Health Insurance	27,000	18,954	8,046
Insurance and Bonds	30,000	28,458	1,542
Legal Fees	25,000	13,673	11,327
Miscellaneous	7,500	3,634	3,866
Office Expenses	13,500	9,204	4,296
Rent	14,300	14,412	(112)
Utilities	2,000	1,840	160
Vehicle Expenses	10,000	6,026	3,974
Non-capital expenditures	10,000	2,853	7,147
Conservation Trust Fund	10,000	-	10,000
Capital Outlay	40,000	70,253	(30,253)
Contingency	50,000	-	50,000
 Total Administration	 <u>663,659</u>	 <u>555,874</u>	 <u>107,785</u>
 TOTAL EXPENDITURES	 <u>2,069,209</u>	 <u>1,236,675</u>	 <u>832,534</u>
 CHANGE IN NET POSITION, Budgetary Basis	 <u>\$ 272,960</u>	 <u>\$ 989,750</u>	 <u>\$ 716,790</u>

(Continued)

See the accompanying Independent Auditor's Report.

MID VALLEY METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS
 Year Ended December 31, 2016

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
CHANGE IN NET POSITION, Budgetary Basis	<u>\$ 272,960</u>	\$ 989,750	<u>\$ 716,790</u>
ADJUSTMENTS TO GAAP BASIS			
Capital Outlay			
Water System		124,551	
Waste Water System		100,050	
Administration		70,253	
Depreciation			
Water System		(157,070)	
Waste Water System		(298,815)	
Administration		<u>(33,738)</u>	
CHANGE IN NET POSITION, GAAP Basis		794,981	
NET POSITION, Beginning		<u>13,712,595</u>	
NET POSITION, Ending		<u>\$ 14,507,576</u>	

See the accompanying Independent Auditor's Report.