

WEST MONTROSE SANITATION DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2016 and 2015



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TABLE OF CONTENTS

	<u>PAGE NO.</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Fund Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	
1. Summary of significant accounting policies	10
2. Deposits with financial institutions and investments	13
3. Capital assets	14
4. Short-term debt	15
5. Spending and debt limitations	15
6. Risk management	15
7. Employees' retirement plan	15
Supplementary Information - Revenues and Expenditures - Budget and Actual	16

INDEPENDENT AUDITOR'S REPORT

DONALD R. MORELAND & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Montrose Sanitation District
Montrose, Colorado 81403

We have audited the accompanying financial statements of West Montrose Sanitation District, as of and for the years ended December 31, 2016 and 2015, 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 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 West Montrose Sanitation District as of December 31, 2016 and 2015, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
West Montrose Sanitation District
Page Two

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Montrose Sanitation District's financial statements as a whole. The supplementary information - revenues and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information - revenues and expenditures - budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Donald R. Moreland & Associates, P.C.

Montrose, Colorado
July 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the West Montrose Sanitation District (the District), we offer readers of the West Montrose Sanitation District's financial statements this narrative overview and analysis of the financial activities of the West Montrose Sanitation District for the fiscal years ended December 31, 2016 and 2015.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,998,273 (net position). Of this amount, \$1,172,767 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors. At the close of the prior fiscal year the District's net position and unrestricted net position were \$2,988,399 and \$1,014,789, respectively.
- The District's net position for the current fiscal year increased by \$9,874, mainly the result of increased septage fees. The District's net position for the prior fiscal year decreased by \$71,179 mainly the result of limited capital contributions - tap fees, continuing repairs and maintenance expense and depreciation.
- District revenues and expenses were relatively consistent from 2015 to 2016 with the exception of increased septage fees and increased employee costs and repairs and maintenance expense. District revenues and expenses were relatively consistent from 2014 to 2015 with the exception of increased sanitation fees due to an increase in monthly rates, the acceptance of septage, and increased personnel costs and repairs and maintenance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the West Montrose Sanitation District's basic financial statements. The West Montrose Sanitation District's basic financial statements are presented as a special purpose government engaged only in business type activities - providing sanitation services.

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

The *statement of revenues, expenses and changes in fund 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 related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* report the District's cash flows from operating, capital and investing activities. Also presented are beginning and end of year cash and cash equivalents.

The basic financial statements can be found on pages 7 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 15 of the report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the West Montrose Sanitation District's budgetary comparisons for revenues and expenditures. Supplementary information can be found on page 16 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the West Montrose Sanitation District, assets exceeded liabilities by \$2,998,273 at the close of the most recent fiscal year.

A significant amount of the District's net position (approximately 61 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, treatment facilities and collection system). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

West Montrose Sanitation District Net Position

	<u>2016</u>	<u>2015</u>
Current assets	\$1,342,509	1,124,659
Capital assets	<u>1,825,506</u>	<u>1,973,610</u>
Total assets	<u>3,168,015</u>	<u>3,098,269</u>
Current liabilities	<u>115,168</u>	<u>57,999</u>
Total liabilities	<u>115,168</u>	<u>57,999</u>
Deferred inflows of resources	<u>54,574</u>	<u>51,871</u>
Total deferred inflows of resources	<u>54,574</u>	<u>51,871</u>
Net position:		
Net investment in capital assets	1,825,506	1,973,610
Unrestricted	<u>1,172,767</u>	<u>1,014,789</u>
Total net position	<u>\$2,998,273</u>	<u>2,988,399</u>

At the end of the current and prior fiscal year, the West Montrose Sanitation District is able to report positive balances in all categories of net position.

Under the GASB 34 reporting model the audit shows the District's net position increased (decreased) by \$9,874 and \$(71,179), respectively, during the years ended December 31, 2016 and 2015. The increase in net position for 2016 was due to increased septage fees. The decrease in net position for 2015 was due to limited capital contributions - tap fees and increased personnel costs and repairs and maintenance expense.

West Montrose Sanitation District Changes in Net Position

	<u>2016</u>	<u>2015</u>
Revenues:		
Operating revenue	\$ 708,342	612,203
Non-operating revenue	<u>59,175</u>	<u>58,464</u>
Total revenues	<u>767,517</u>	<u>670,667</u>
Expenses:		
Operating expenses:		
Administrative and general	187,980	204,360
Sewage collection and treatment	381,219	345,775
Depreciation	192,656	195,943
Non-operating expenses:		
Treasurer's fees	<u>1,038</u>	<u>1,018</u>
Total expenses	<u>762,893</u>	<u>747,096</u>
Income (loss) before contributions	4,624	(76,429)
Capital contributions - tap fees	<u>5,250</u>	<u>5,250</u>
Change in net position	9,874	(71,179)
Net position - beginning of year	<u>2,988,399</u>	<u>3,059,578</u>
Net position - end of year	<u>\$2,998,273</u>	<u>2,988,399</u>

Total expenses increased approximately 2 percent during the current fiscal year, mainly as a result of increased personnel costs and repairs and maintenance. Total expenses increased approximately 5 percent for the prior fiscal year mainly as a result of increased personnel costs and repairs and maintenance.

Budgetary highlights

Changes between actual revenues and budgeted amounts were primarily due to increased septage fees.

Changes between actual expenses and budgeted amounts were primarily due to decreased supplies and expense and increased sewage collection and treatment personnel costs, supplies and expense.

Capital Asset and Debt Administration

Capital assets. The West Montrose Sanitation District's investment in capital assets as of December 31, 2016 and 2015 amounted to \$1,825,506 and \$1,973,610, respectively, (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building, equipment, treatment facilities and collection system.

The major capital asset event during the current year was the purchase of an additional vehicle. There were no major capital asset events during the prior year.

West Montrose Sanitation District Capital Assets
(net of depreciation)

	2016	2015
Land	\$ 184,496	184,496
Treatment facility	794,739	903,325
Collection system	784,125	837,946
Office building	16,839	17,618
Furniture and equipment	45,307	30,225
	<u>\$1,825,506</u>	<u>1,973,610</u>

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

Economic Factors and Next Year's Budgets and Rates

The economic condition and outlook for the District in the upcoming year appears stable. Sanitation fees increased by \$2 a month in 2015 which increased revenue by approximately \$45,000. The District's anticipated collection of property and specific ownership taxes in 2017 will stabilize. These plus other factors were considered in preparing the District's budget for the 2017 fiscal year. The District has reinstated septage collection which will increase revenues.

Request for information

This financial report is designed to provide a general overview of the West Montrose Sanitation District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to West Montrose Sanitation District, 239 Chipeta Drive, Montrose, Colorado, 81403.

FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF NET POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,252,907	1,048,096
Due from other governments	474	476
Accounts receivable	26,062	15,112
Property taxes receivable	54,574	51,871
Prepaid expenses	8,492	9,104
TOTAL CURRENT ASSETS	<u>1,342,509</u>	<u>1,124,659</u>
CAPITAL ASSETS		
Land	184,496	184,496
Land improvements	17,001	17,001
Treatment facilities	2,758,523	2,749,927
Collection system	1,930,542	1,922,312
Office building	46,885	46,073
Transportation equipment	49,144	22,229
Furniture and equipment	106,392	114,742
	<u>5,092,983</u>	<u>5,056,780</u>
Less accumulated depreciation	3,267,477	3,083,170
PROPERTY, PLANT AND EQUIPMENT - NET	<u>1,825,506</u>	<u>1,973,610</u>
TOTAL ASSETS \$	<u><u>3,168,015</u></u>	<u><u>3,098,269</u></u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 20,997	9,180
Customer advances	71,784	27,892
Accrued payroll	9,544	8,161
Payroll taxes withheld and accrued	1,039	461
Accrued compensated absences	11,804	12,305
TOTAL CURRENT LIABILITIES	<u>115,168</u>	<u>57,999</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred revenue - property taxes	54,574	51,871
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>54,574</u>	<u>51,871</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,825,506	1,973,610
Unrestricted	1,172,767	1,014,789
TOTAL NET POSITION \$	<u><u>2,998,273</u></u>	<u><u>2,988,399</u></u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>OPERATING REVENUE</u>		
Sanitation fees	\$ 571,147	573,063
Septage fees	110,021	13,847
Rental income	3,600	4,200
Other income	23,574	21,093
TOTAL OPERATING REVENUES	<u>708,342</u>	<u>612,203</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages	239,060	220,308
Payroll tax expense	26,558	18,744
Employee benefits	64,745	58,098
Accounting and audit fees	10,000	9,950
Licenses and permits	1,305	1,325
Insurance	13,480	14,648
Legal fees	4,166	8,738
Consultant fees	1,525	2,906
Bank fees	6,388	5,153
Miscellaneous	4,447	4,334
Office supplies and postage	14,565	13,247
Supplies	7,733	7,831
Telephone	4,271	4,567
Utilities	83,627	76,368
Repairs and maintenance	84,702	102,793
Depreciation	192,656	195,943
Truck expense	2,627	1,125
TOTAL OPERATING EXPENSES	<u>761,855</u>	<u>746,078</u>
OPERATING INCOME (LOSS)	<u>(53,513)</u>	<u>(133,875)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Investment income	848	819
Property and specific ownership tax	58,327	57,645
Treasurer's fees	(1,038)	(1,018)
NET NON-OPERATING REVENUE (EXPENSE)	<u>58,137</u>	<u>57,446</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	4,624	(76,429)
CAPITAL CONTRIBUTIONS - TAP FEES	<u>5,250</u>	<u>5,250</u>
CHANGE IN NET POSITION	9,874	(71,179)
NET POSITION, January 1	<u>2,988,399</u>	<u>3,059,578</u>
NET POSITION, December 31	<u>\$ 2,998,273</u>	<u>2,988,399</u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from user charges	\$ 741,284	593,399
Payments to suppliers for goods and services	(226,906)	(259,339)
Payments to employees	(328,402)	(297,240)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>185,976</u>	<u>36,820</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Property and specific ownership tax-net	57,289	56,628
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>57,289</u>	<u>56,628</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(44,552)	(22,785)
Capital contributions - tap fees	5,250	5,250
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(39,302)</u>	<u>(17,535)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income received	848	819
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>848</u>	<u>819</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	204,811	76,732
CASH AND CASH EQUIVALENTS, January 1	1,048,096	971,364
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 1,252,907</u>	<u>1,048,096</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (53,513)	(133,876)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	192,656	195,943
Changes in assets and liabilities:		
(Increase) decrease in due from other governments	2	(100)
(Increase) decrease in accounts receivable	(10,950)	(949)
(Increase) decrease in prepaid expenses	612	144
Increase (decrease) in accounts payable	11,817	(6,397)
Increase (decrease) in customer advances	43,892	(17,855)
Increase (decrease) in accrued payroll	1,383	
Increase (decrease) in accrued compensated absences	(501)	(144)
Increase (decrease) in payroll taxes withheld and accrued	578	54
Increase (decrease) in unearned revenue - other		
	<u>\$ 185,976</u>	<u>36,820</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The West Montrose Sanitation District is incorporated as a special district under the laws of the State of Colorado with an elected board of five directors. The District provides sewage collection services for the residences and businesses within the District's boundaries and septage services. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the District consist only of the enterprise fund of the District, a primary government. Based on criteria set forth by GASB, there are no component units for which the District is financially accountable.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds 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 nonoperating revenues and expenses.

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.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2016 and 2015

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents. The District considers all cash on hand, demand deposits and short-term highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments. It is the District's policy to invest in money market deposits with SEC registered broker-dealers, securities issued or guaranteed by the Federal government or its agencies and commercial paper. Investments, if any, are stated at fair value.

Allowance for doubtful accounts. The District considers all accounts receivable collectible and, accordingly, provides no allowance for doubtful accounts.

Property taxes receivable. Property taxes are levied on December 22 and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and collected in the following year are reported as a receivable at December 31, net of an estimated uncollectible portion.

Capital assets. Purchased or constructed capital assets are reported at cost or estimated historical cost. Construction costs are increased by interest incurred on bonds during the construction period and reduced by earnings from the investment of the unexpended bond proceeds. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives. Capital assets acquired by capital lease are depreciated over the estimated useful lives and are included in depreciation expense. The estimated useful lives are as follows:

Treatment facilities	5 - 25 years
Collection system	40 years
Building	40 years
Furniture and equipment	5 - 20 years
Transportation equipment	4 years
Land improvements	10 years

Compensated absences. The liability for compensated absences consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

WEST MONTROSE SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2016 and 2015

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGET AND BUDGETARY ACCOUNTING.

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

1. Budgets are required by state law for all governmental funds.
2. During September the proposed budget is submitted to the Board of Directors for the fiscal year commencing the following January 1.
3. Prior to December 31, the budget is adopted and appropriations are authorized by resolution at the fund level for all funds. The legal level of budgeting control is at the individual fund level for all funds.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that capital outlays are budgeted as expenditures, no provision is made for depreciation and advance refundings are not budgeted.
5. Expenditures may not legally exceed appropriations at the fund level. The Board of Directors may increase or decrease the budget and appropriations during the year within restrictions imposed by the District and laws of the State of Colorado. Budget amounts included in the financial statements are based on the final, legally amended budget.
6. Appropriations lapse at the end of the year, and the Board of Directors may adopt supplemental appropriations during the year. For 2016 and 2015, supplemental appropriations were not adopted.

Originally adopted budgeted expenditures, amendments and the final amended budgeted expenditures for the year ended December 31, 2016 and 2015 are as follows:

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDMENT</u>	<u>FINAL</u> <u>BUDGET</u>
Enterprise Fund - 2016	\$ <u>829,428</u>	<u> </u>	<u>829,428</u>
Enterprise Fund - 2015	\$ <u>817,808</u>	<u> </u>	<u>817,808</u>

Reclassifications. Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2016 and 2015

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public depositories as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2015 none of the District's bank balances of \$1,251,930 and \$1,049,838, respectively, were exposed to custodial credit risk as \$546,907 and \$550,303, respectively, were insured and \$705,023 and \$499,535, respectively, were collateralized by securities pledged by financial institutions.

At December 31, 2016 and 2015 the carrying amount of the District's deposits were presented on the balance sheet as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	<u>\$1,252,907</u>	<u>1,048,096</u>

Interest rate risk

The District has a formal investment policy that limits investment maturities to less than ten years from date of purchase as means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest 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; and guaranteed investment contracts.

Concentration of credit risk

The District limits the amount that may be invested in commercial paper to no more than 50% of invested funds, effective August 9, 2013.

The District had no investments during the years ended December 31, 2016 and 2015.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2016 and 2015

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2016				
Capital assets not being depreciated:				
Land and easements	\$ 184,496			184,496
Capital assets being depreciated:				
Land improvements	17,001			17,001
Treatment facilities	2,749,927	8,596		2,758,523
Collection system	1,922,312	8,230		1,930,542
Office building	46,073	812		46,885
Transportation equipment	22,229	26,915		49,144
Furniture and equipment	114,742		8,350	106,392
Total capital assets being depreciated	<u>4,872,284</u>	<u>44,553</u>	<u>8,350</u>	<u>4,908,487</u>
Less accumulated depreciation for:				
Land improvements	17,001			17,001
Treatment facilities	1,846,602	117,182		1,963,784
Collection system	1,084,366	62,051		1,146,417
Office building	28,455	1,591		30,046
Transportation equipment	22,229	4,037		26,266
Furniture and equipment	84,517	7,796	8,350	83,963
Total accumulated depreciation	<u>3,083,170</u>	<u>192,657</u>	<u>8,350</u>	<u>3,267,477</u>
Total capital assets, net	<u>\$1,973,610</u>	<u>(148,104)</u>		<u>1,825,506</u>
2015				
Capital assets not being depreciated:				
Land and easements	\$ 184,496			184,496
Capital assets being depreciated:				
Land improvements	17,001			17,001
Treatment facilities	2,749,927			2,749,927
Collection system	1,922,312			1,922,312
Office building	46,073			46,073
Transportation equipment	22,229			22,229
Furniture and equipment	94,385	22,785	(2,428)	114,742
Total capital assets being depreciated	<u>4,851,927</u>	<u>22,785</u>	<u>(2,428)</u>	<u>4,872,284</u>
Less accumulated depreciation for:				
Land improvements	15,949	1,052		17,001
Treatment facilities	1,729,420	117,182		1,846,602
Collection system	1,012,210	72,156		1,084,366
Office building	26,886	1,569		28,455
Transportation equipment	22,229			22,229
Furniture and equipment	82,961	3,984	2,428	84,517
Total accumulated depreciation	<u>2,889,655</u>	<u>195,943</u>	<u>2,428</u>	<u>3,083,170</u>
Total capital assets, net	<u>\$2,146,768</u>	<u>(195,943)</u>		<u>1,973,610</u>

WEST MONTROSE SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

4 - SHORT-TERM DEBT

The District had no short-term debt during the years ended December 31, 2016 and 2015.

5 - SPENDING AND DEBT LIMITATIONS

The State Constitution, Article X, Section 20, has several limitations regarding revenue raising, spending abilities, and other specific requirements of state and local governments. The Section is complex and subject to judicial interpretation. It is the opinion of management and the District's attorney that the District's sewage activity is an enterprise within the meaning of Article X, Section 20, and is not subject to the revenue limitations nor required to establish the emergency reserves but is subject to the property tax limitations contained therein.

6 - RISK MANAGEMENT

The District is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Such exposure, except for the collection system, is covered by purchase of commercial insurance, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7 - EMPLOYEES' RETIREMENT PLAN

The District provides pension benefits for all of its full-time employees in two separate defined contribution plans through the Colorado County Officials and Employees Retirement Association, a multiple-employer public employee retirement system. Any Colorado County, Special District or Municipality may choose to adopt the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately. Association rules require that both the employee and the District contribute 8% of total compensation to the plan.

The District's contribution for each employee (and earnings, losses and changes in fair market value of plan assets) are vested at a rate of 50% per year. Employee contributions and their earnings are 100% vested immediately. Nonvested contributions are forfeited upon termination of employment and such forfeitures may be used to pay plan expenses or the employer's contribution to the plan. For the years ended December 31, 2016 and 2015, there were no forfeitures.

The District's total payroll for 2016 and 2015 was \$240,794 and \$223,008, respectively. The District's contributions were calculated using the covered payroll of \$221,017 and \$202,738 for 2016 and 2015, respectively. Both the District and the covered employees made the 8% contribution, amounting to \$17,681 for 2016 and \$16,219 for 2015 from each source, or \$35,362 and \$32,438 in total for 2016 and 2015, respectively. The plan had four plan members for 2016 and 2015.

The District had no liability to the plan at December 31, 2016.

SUPPLEMENTARY INFORMATION

REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

WEST MONTROSE SANITATION DISTRICT
REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
For the years ended December 31, 2016 and 2015

	2016			2015		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
PROPRIETARY REVENUE						
Sanitation fees	\$ 578,892	571,147	(7,745)	578,500	573,063	(5,437)
Septage fees		110,021	110,021		13,847	13,847
Tap fees	5,250	5,250	-	5,250	5,250	-
Investment income	500	848	348	400	819	419
Rental income		3,600	3,600		4,200	4,200
Other income	20,516	23,574	3,058	23,606	21,093	(2,513)
	<u>605,158</u>	<u>714,440</u>	<u>109,282</u>	<u>607,756</u>	<u>618,272</u>	<u>10,516</u>
PROPRIETARY EXPENDITURES						
Administration:	110,608	111,195				
Personnel costs	75,322	63,305	12,017	109,624	132,250	(22,626)
Supplies and expense	14,500	13,480	1,020	69,283	57,462	11,821
Insurance			-	14,170	14,648	(478)
Sewage Collection and Treatment:						
Personnel costs	189,554	219,168	(29,614)	160,984	164,900	(3,916)
Supplies and expense	207,681	162,051	45,630	234,147	180,875	53,272
Capital outlay	29,600	44,552	(14,952)	27,500	22,785	4,715
Contingency	200,000		200,000	200,000		200,000
TOTAL PROPRIETARY EXPENDITURES	<u>827,265</u>	<u>613,751</u>	<u>214,101</u>	<u>815,708</u>	<u>572,920</u>	<u>242,788</u>
EXCESS OF PROPRIETARY REVENUES OVER (UNDER) EXPENDITURES	<u>(222,107)</u>	<u>100,689</u>	<u>322,796</u>	<u>(207,952)</u>	<u>45,352</u>	<u>253,304</u>
GOVERNMENTAL REVENUE						
Property and specific ownership taxes	51,878	58,327	6,449	55,620	57,645	2,025
GOVERNMENTAL EXPENDITURES						
Treasurer's fees	2,163	1,038	1,125	2,100	1,018	1,082
EXCESS OF GOVERNMENT REVENUES OVER (UNDER) EXPENDITURES	<u>49,715</u>	<u>57,289</u>	<u>7,574</u>	<u>53,520</u>	<u>56,627</u>	<u>3,107</u>
TOTAL DISTRICT REVENUES	<u>657,036</u>	<u>772,767</u>	<u>115,731</u>	<u>663,376</u>	<u>675,917</u>	<u>12,541</u>
TOTAL DISTRICT EXPENDITURES	<u>829,428</u>	<u>614,789</u>	<u>215,226</u>	<u>817,808</u>	<u>573,938</u>	<u>243,870</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	<u>(172,392)</u>	<u>157,978</u>	<u>330,957</u>	<u>(154,432)</u>	<u>101,979</u>	<u>256,411</u>
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENDITURES TO CHANGE IN NET POSITION						
CAPITALIZED EXPENDITURES		44,552			22,785	
DEPRECIATION		(192,656)			(195,943)	
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION \$		<u>9,874</u>			<u>(71,179)</u>	