

**SNAKE RIVER WATER DISTRICT
DILLON, COLORADO**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2016



Crady, Puca & Associates

Certified Public Accountants & Consultants

**SNAKE RIVER WATER DISTRICT
DILLON, COLORADO**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Snake River Water District

We have audited the accompanying financial statements of the Snake River Water District (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 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 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 the Snake River Water District, as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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.

Prior year summarized comparative information

The prior year summarized comparative information has been derived from the District's 2015 financial statements and in our report dated May 10, 2016, we expressed an unmodified opinion on those statements. In our opinion, the information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crady, Puca & Associates

Centennial, CO 80112

May 9, 2017

Management's Discussion and Analysis **2016**

This Management's Discussion and Analysis (MD&A) for the Snake River Water District provides readers with an overview of the District's financial status and performance for the fiscal year ended on December 31, 2016.

This MD&A includes the following sections:

| | | |
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In reviewing this MD&A, please note that Sections II, III and IV are all interrelated. Section II provides an outline of the purpose of each financial statement, Section III provides the basic data for each statement and Section IV provides discussion on each financial component presented in Section III.

I. Financial Highlights

The Snake River Water District continues to be on a strong financial footing. Some of the more notable indicators of the District's financial health include:

1. At the end of 2016, the District's Total Net Position increased over the prior year, by \$611,133, bringing the District's Total Net Position to \$20,918,498.
2. The District's overall assets increased from \$20,464,783 in 2015 to \$21,109,672 in 2016.

More than \$77,000 of improvements were made in 2016 to the District's infrastructure including: costs related to a proposed land trade for a new water tank in Base II; design and engineering for a new water treatment facility for Base III; upgrades to the District's SCADA system; and completion of the District's new Advanced Meter Infrastructure project.

The water user fee increase adopted by the District in 2013, coupled with tap fees and other revenue, continues to be sufficient to fund various capital improvement projects, identified in the Water Utility Master Plan, prepared by TetraTech in 2012. This plan identified eight major improvements at a cost of over \$9,000,000. At the Board meeting in November 2015 staff noted that, while a number of these improvements were anticipated to be made at substantial savings (over \$1,500,000), these savings were more than offset by cost projections for the Base III water treatment facility. Revised cost estimates for the Base III facility (prepared by Tetra Tech in the fall of 2015) were over \$3,000,000 more than originally estimated in 2012. The Board recognizes that a more realistic estimate won't be available until the project is completely designed and bids received.

At the Snake River Water District Board's regular meeting in November 2016, the Board reviewed anticipated future capital expenditures along with a model projecting future funding streams, and concluded that no fee increase was necessary for 2017. While the Board concluded that no fee increase was necessary for 2017, they did commit to reevaluate the capital expenditure model, funding stream, and overall condition of the District's finances on an annual basis, to determine if any future fee increase is warranted.

Given the District's generous capital reserves of \$6,554,832 at December 31, 2016 and the funding stream the District has in place for capital improvements, any future increase in user rates should be minimal.

Management and the SRWD Board of Directors support financial projections for the annual budget which follow economic trends. Budgets are prepared with projected capital improvements and maintenance outlay for the year. Expenses not utilized by December 31st are retained in cash & investments for future capital projects.

II. Overview of the Financial Statements

The Financial Statements of the District utilize the accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. All of these statements pertain to the District's only fund, which is a Proprietary Fund.

Statement of Net Position (see page vi) includes statistics on the District's assets and liabilities and delineates information about the nature and amounts of investments placed in resources (assets) and the obligations to the District's creditors (liabilities).

Statement of Revenues, Expenses and Changes in Net Position (see page vii) identifies the District's income and expenses for the years ended December 31, 2016 and 2015. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual costs through user fees and other revenues.

III. CONDENSED COMPARATIVE DATA

STATEMENT OF NET POSITION

| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> |
|----------------------------|----------------------|----------------------|--------------------------------|
| Assets | | | |
| Current Assets | \$ 4,684,897 | \$ 3,218,996 | \$ 1,465,901 |
| Capital Assets, net | 12,147,479 | 12,316,726 | (169,247) |
| Other Assets | 4,277,296 | 4,929,061 | (651,765) |
| Total Assets | <u>21,109,672</u> | <u>20,464,783</u> | <u>644,889</u> |
| Liabilities | | | |
| Current Liabilities | 69,659 | 35,903 | 33,756 |
| Other Liabilities | 121,515 | 121,515 | - |
| Total Liabilities | <u>191,174</u> | <u>157,418</u> | <u>33,756</u> |
| Net Position | | | |
| Invested in Capital Assets | 12,147,479 | 12,316,726 | (169,247) |
| Restricted | 5,940 | 5,940 | - |
| Unrestricted | 8,765,079 | 7,984,699 | 780,380 |
| Total Net Position | <u>\$ 20,918,498</u> | <u>\$ 20,307,365</u> | <u>\$ 611,133</u> |

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | 2016 | 2015 | Increase (Decrease) |
|--|---------------|---------------|--------------------------------|
| Operating Revenues | \$ 1,198,133 | \$ 1,210,895 | \$ (12,762) |
| Less: Operating Expenses | 703,845 | 674,540 | 29,305 |
| Less: Depreciation | 376,306 | 390,265 | (13,959) |
| Net Income from Operations | 117,982 | 146,090 | (28,108) |
| Non-operating Revenue | 363,159 | 161,530 | 201,629 |
| Capital Contributions | 129,992 | 61,360 | 68,632 |
| Increase in Net Position | 611,133 | 368,980 | 242,153 |
| Net Position, Beginning of Year | 20,307,365 | 19,938,385 | 368,980 |
| Net Position, End of Year | \$ 20,918,498 | \$ 20,307,365 | \$ 611,133 |

IV. Overall Financial Analysis

Assets

Current assets of the District are principally cash and short-term investments. Year-end current assets increased dramatically from \$3,218,996 in 2015 to \$4,684,897 in 2016. This increase of \$1,465,901 is largely attributable to the District's year end net income as well as a shift in investment strategy which moved more funds into short-term investments.

Total capital assets decreased by \$169,247. More than \$77,000 of improvements were made in 2016 to the District's infrastructure (as outlined above). The District also received \$129,992 of capital contributions in the way of water mains accepted from the Alders Townhomes Filing #II in 2016. Both of these additions to the District's capital assets were offset by the \$376,306 increase in accumulated depreciation between 2015 and 2016.

Other assets consist primarily of long-term investments in 2016 and decreased due to the implementation of the Board's financial strategy as noted above.

The District's overall assets increased from \$20,464,783 in 2015 to \$21,109,672 in 2016.

Liabilities

Total liabilities increased from \$157,418 in 2015 to \$191,174 in 2016. The increase of \$33,756 is due to an increase in current liabilities, principally related to year-end accounts payable for engineering services.

Revenue

Total operating revenue for fiscal year 2016 declined slightly to \$1,198,133 from the \$1,210,895 received in 2015. Non-operating revenue received by the District increased between 2015 and 2016 from \$161,530 to \$363,159. This increase in revenue is principally attributable to receiving \$52,787 more in investment income and \$143,597 more in tap fees (system investment fees) in 2016 than the District received in 2015. Tap fees for the Tenderfoot project constituted \$90,000 of this amount.

Expenses

Total operating expenses for the District were \$703,845 in 2016, or \$29,305 more than operating expenses in 2015. While many operating expenses decreased, one of the more notable increases was repairs and maintenance for \$43,921 (including \$44,800 to M and M Tank for repairing the Pilot Lode Tank). Computer support increased \$4,143 due to the costs to program and set up of the new server.

Increase in Net Position

Subtracting total expenses from total revenues equals the change in net position. The increase in the District's net position in 2016 was \$611,133, bringing the District's total net position, at the end of 2016, to \$20,918,498.

V. Analysis of Budgetary Variations

Final expenditures for 2016 are presented on pages 14-15 of this Audit Report along with the 2016 District budget as approved by the Board of Directors. Significant variations between what was approved by the Board and what was realized are discussed below:

1. *System investment fees received by the District in 2016 were \$156,000 over the budgeted amount of \$96,000. While \$66,000 of this can be attributed to new units constructed in the District, \$90,000 was paid in tap fees for Vail Resorts Tenderfoot Housing Project.*
2. *Repairs and Maintenance expenditures were \$44,158 more than budgeted. All of this overage can be attributed to the repair of the Pilot Lode Tank (\$44,800) which was included in the 2016 budget as a capital expenditure but was expensed as a repair and maintenance item.*
3. *Engineering and Design expenses exceeded the budget by \$32,392 and included \$43,616 in expenses related to the proposed Base II tank and the Base III water treatment plant. Both of these projects were identified in the 2012 District Utilities Master Plan and were included in the approved 2016 budget as capital expenditures.*
4. *No contingency dollars were spent in 2016.*
5. *Legal fees of \$8,926 were less than half of the approved budget.*
6. *Capital outlay in 2016 was only \$77,067, which was a small fraction of the approved \$2,136,656. In adopting the 2016 Budget, the Board recognized that progress on both the Base II tank and the Base III water treatment plants were dependent on the cooperation and approval of entities the District had no control over. The 2016 budget optimistically included \$55,000 for the base II tank and \$1,515,148 for the Base III water treatment plant. Due to the lack of necessary approvals these projects have both been slow to develop with nothing being capitalized on the Base II Tank and approximately \$43,000 being capitalized on the Base III water treatment plant, however it is categorized as "construction in progress" until placed in service.*

VI. Capital Assets

The current financial management practice of the Board of Directors is to pay cash for general system improvements and to not subject the populace of the District to financing. All funds invested by the District are in compliance with Colorado Revised Statutes, Article 75 Section 24-75-601.1 - *Legal Investments of Public Funds*.

The District addresses asset replacement funding and reports on the funds available during the budget process. The Board, in adopting the budget for 2016, approved Fund Projections for 2016. Highlights of these projections relating to capital assets included:

- i) \$2,136,656 to be spent on major capital improvements in 2016 including: completing the Advanced Meter Infrastructure project; repair and paint of the Pilot Lode Tank, a new water tank for Base II, water line breaks and extraordinary repairs; a new water treatment plant for Base III; and SCAD and Pressure Reducing valve upgrades.
- ii) \$1,500,000 being held in the emergency reserve account
- iii) \$4,305,579 estimated as the year-end balance for 2016 to fund future capital/system improvements.

The District's total depreciable capital assets as of December 31, 2015 was \$12,828,099 and \$13,006,900 in 2016. The District's accumulated depreciation increased from \$8,080,226 in 2015 to \$8,456,532 in 2016.

In 2016, the District added \$207,059 in capital improvements, including \$129,992 in contributed water mains.

| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> |
|---|----------------------|----------------------|--------------------------------|
| Collection, storage and distribution system | \$ 11,498,764 | \$ 11,332,561 | \$ 166,203 |
| Buildings and improvements | 1,131,547 | 1,131,547 | - |
| General equipment | 169,104 | 169,104 | - |
| Computer software and equipment | 207,485 | 194,887 | 12,598 |
| | <u>13,006,900</u> | <u>12,828,099</u> | <u>178,801</u> |
| Less: accumulated depreciation | <u>(8,456,532)</u> | <u>(8,080,226)</u> | <u>376,306</u> |
| Net depreciable capital assets | 4,550,368 | 4,747,873 | (197,505) |
| Land and water rights | 7,553,618 | 7,553,618 | - |
| Construction in Progress | <u>43,493</u> | <u>15,235</u> | <u>28,258</u> |
| | | | - |
| Net capital assets | <u>\$ 12,147,479</u> | <u>\$ 12,316,726</u> | <u>\$ (169,247)</u> |

VII. Discussion of Currently Known Facts, Decisions or Conditions of Future Significance

The fee increase adopted by the District in 2013, coupled with tap fees and other revenue, continues to be sufficient to fund various capital improvement projects identified in the Water Utility Master Plan prepared by TetraTech in 2012. This plan identified eight major improvements at a cost of over \$9,000,000. Depending on final cost estimates for the Base III water treatment facility, the total cost of improvements to implement this plan could exceed the 2012 estimate.

While it is difficult to project capital expenditures into the future, the Board was provided a memo on August 9, 2016 discussing projected cash flow through 2026. In this memo and supporting capital timeline and cash flow projection (using the TetraTech capital expenditures model), it appears the District will be able to pursue a moderately aggressive capital improvements program and still have healthy year-end projected balances with the minimum year-end balance being over \$3.4 million in 2024.

Given these projections and the overall financial health of the Snake River Water District, no fee increase was proposed for 2017. The District will reevaluate the capital expenditure model, funding stream and overall condition of the District's finances on an annual basis to determine if any future fee increase is warranted.

Recognizing the District's generous capital reserves and the funding stream the District has in place for capital improvements, any future increase in user rates should be minimal.

The District initiated efforts in 2014 to improve the return on its rather substantial portfolio. An initial step in this effort was to develop an Investment Policy for the District. On December 1, 2014, the Board adopted such a policy. This policy provides guidance regarding investment objectives, delegation of authority, types of securities, diversification and selection of banks and broker/dealers. This policy was largely implemented in 2015 and further refined in 2016.

VIII. Additional Financial Information

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have any questions regarding the information included in this Management's Discussion and Analysis report, please contact Stephen Hill – Administrator/Executive Director - Snake River Water District - P.O. Box 2595, Dillon, CO 80435 - (970) 468-0328 - executivedirector@snakeriverwater.com. Please visit www.snakeriverwater.com for the Agenda posting and scheduled meeting dates.

SNAKE RIVER WATER DISTRICT**Statement of Net Position****December 31, 2016****(With Summarized Financial Information as of December 31, 2015)**

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,923,429 | \$ 3,157,604 |
| Accounts receivable | 2,806 | 13,699 |
| Accrued interest receivable | 9,929 | 9,068 |
| Prepaid expenses | 7,142 | 10,834 |
| Deposits and investments | 1,741,591 | 27,791 |
| Total current assets | <u>4,684,897</u> | <u>3,218,996</u> |
| Noncurrent assets: | | |
| Deposits and investments | <u>4,272,240</u> | <u>4,924,005</u> |
| Capital assets: | | |
| Capital assets, not being depreciated | 7,597,111 | 7,568,853 |
| Capital assets, being depreciated, net | 4,550,368 | 4,747,873 |
| | <u>12,147,479</u> | <u>12,316,726</u> |
| Deposits | <u>5,056</u> | <u>5,056</u> |
| Total noncurrent assets | <u>16,424,775</u> | <u>17,245,787</u> |
| Total assets | <u>21,109,672</u> | <u>20,464,783</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | <u>69,659</u> | <u>35,903</u> |
| Other liabilities: | | |
| Prepaid tap fees | 120,000 | 120,000 |
| Security deposits payable | 1,515 | 1,515 |
| Total other liabilities | <u>121,515</u> | <u>121,515</u> |
| Total liabilities | <u>191,174</u> | <u>157,418</u> |
| NET POSITION | | |
| Net investment in capital assets | 12,147,479 | 12,316,726 |
| Restricted | 5,940 | 5,940 |
| Unrestricted | 8,765,079 | 7,984,699 |
| Total net position | <u>\$ 20,918,498</u> | <u>\$ 20,307,365</u> |

The accompanying notes are an integral part of this statement.

SNAKE RIVER WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016
(With Summarized Financial Information for the Year Ended December 31, 2015)

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Water fees | \$ 1,198,133 | \$ 1,210,895 |
| Total operating revenues | <u>1,198,133</u> | <u>1,210,895</u> |
| Operating expenses: | | |
| Operations and maintenance: | | |
| Water treatment contract | 215,738 | 213,600 |
| Repairs and maintenance | 119,158 | 75,237 |
| Utilities | 57,670 | 64,834 |
| Chemicals, lab fees and supplies | 6,116 | 9,752 |
| Engineering and design | 46,392 | 54,540 |
| Total operations and maintenance | <u>445,074</u> | <u>417,963</u> |
| General and administration: | | |
| Administration contract | 181,876 | 180,075 |
| Auditing and accounting | 11,163 | 8,356 |
| Computer support | 9,919 | 5,776 |
| Water engineering | 3,500 | 11,817 |
| Insurance | 20,840 | 20,687 |
| Legal fees | 8,926 | 8,733 |
| Forest Service and water rights leases | 8,287 | 8,286 |
| Office supplies and expense | 7,772 | 7,956 |
| Election expense | 76 | -- |
| Miscellaneous | 2,810 | 2,209 |
| Board expenses | 3,602 | 2,682 |
| Total general and administration | <u>258,771</u> | <u>256,577</u> |
| Total operating expenses | <u>703,845</u> | <u>674,540</u> |
| Operating income before depreciation | <u>494,288</u> | <u>536,355</u> |
| Depreciation | <u>376,306</u> | <u>390,265</u> |
| Operating income | <u>117,982</u> | <u>146,090</u> |
| Non-operating revenues: | | |
| Investment income | 74,738 | 21,951 |
| System investment fees | 252,000 | 108,403 |
| Rental income | 29,203 | 27,176 |
| Miscellaneous | 7,218 | 4,000 |
| Total non-operating revenues | <u>363,159</u> | <u>161,530</u> |
| Income before capital contributions | <u>481,141</u> | <u>307,620</u> |
| Capital contributions of assets | <u>129,992</u> | <u>61,360</u> |
| Change in net position | 611,133 | 368,980 |
| Net position, beginning of year | <u>20,307,365</u> | <u>19,938,385</u> |
| Net position, end of year | <u>\$ 20,918,498</u> | <u>\$ 20,307,365</u> |

The accompanying notes are an integral part of this statement.

SNAKE RIVER WATER DISTRICT**Statement of Cash Flows****For the Year Ended December 31, 2016****(With Summarized Financial Information for the Year Ended December 31, 2015)**

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,209,026 | \$ 1,202,092 |
| Cash paid to suppliers of goods and services | (666,397) | (635,172) |
| Net cash provided by operating activities | <u>542,629</u> | <u>566,920</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (77,067) | (101,400) |
| System investment fees | 259,218 | 112,403 |
| Net cash provided by capital financing activities | <u>182,151</u> | <u>11,003</u> |
| Cash flows from non-capital financing activities: | | |
| Other non-operating revenues | <u>29,203</u> | <u>27,176</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 1,549,601 | 818,112 |
| Purchases of investments | (2,603,146) | (4,943,684) |
| Interest on cash and investments | 65,387 | 34,414 |
| Net cash (used in) investing activities | <u>(988,158)</u> | <u>(4,091,158)</u> |
| Net decrease in cash and cash equivalents | (234,175) | (3,486,059) |
| Cash and cash equivalents, beginning of year | <u>3,157,604</u> | <u>6,643,663</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,923,429</u> | <u>\$ 3,157,604</u> |
| Reconciliation of operating income to net cash provided by operations | | |
| Operating income | <u>\$ 117,982</u> | <u>\$ 146,090</u> |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 376,306 | 390,265 |
| (Increase) decrease in: | | |
| Accounts receivable | 10,893 | (8,803) |
| Prepaid expenses | 3,692 | 16,790 |
| (Decrease) increase in: | | |
| Accounts payable | 33,756 | 22,578 |
| Total adjustments | <u>424,647</u> | <u>420,830</u> |
| Net cash provided by operating activities | <u>\$ 542,629</u> | <u>\$ 566,920</u> |
| Noncash capital activities: | | |
| Contributions of assets | <u>\$ 129,992</u> | <u>\$ 61,360</u> |
| Noncash investing activities: | | |
| Fair value increase (decrease) on investments | <u>\$ 8,490</u> | <u>\$ (21,531)</u> |

The accompanying notes are an integral part of this statement.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Snake River Water District, Dillon, Colorado, (the District), conform to accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements.

Reporting Entity

The District is a statutory, single-purpose, Special District governed by a seven member Board of Directors pursuant to provisions of the Colorado Special District Act, C.R.S. Title 32. Qualified electors in the District elect the members of the Board. As required by US GAAP, these financial statements present the activities of the District which is legally separate and financially independent of other state and local governments.

The District provides domestic and fire protection water for its service area, which is located in the Keystone Base Area of Summit County, Colorado. The boundaries of the District include portions of T5S R76W with portions of Section 13, 14, 18, 19, 20, 22, 23, and 24. These are further defined by the Snake River Water District Boundary Map dated January 5, 2007.

The District complies with GASB 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

In November 2012, the District's Board passed a resolution recognizing the District as a "water activity enterprise" under Article X, Section 20 of the Colorado Constitution.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's 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 when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds are used by governments to report any activity for which a fee is charged to external users for goods or services.

The District's water is provided on a metered rate to its users.

1. Summary of Significant Accounting Policies (continued)

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

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations, the delivery of water. Operating expenses for the District include costs of sales and services, operating expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including system investment (tap) fees and interest income are reported as non-operating 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 use unrestricted resources as they are needed.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less, and which are not held as part of an investment portfolio, to be cash equivalents.

Investments

Investments are reported at fair value and are classified as current or non-current based on their maturity date.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables

Accounts receivable consists primarily of Water User Fees earned as of December 31, 2016. The District considers all receivables collectible as of December 31, 2016, therefore no allowance has been recorded.

Prepaid Items

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

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Capital Assets

Capital assets include land, water rights, buildings and improvements, water collection, storage and distribution system, general equipment, computer software, and office furniture and equipment. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Capital assets, excluding land and water rights, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---|--------------|
| Collection, storage and distribution system | 10-50 |
| Buildings and improvements | 10-40 |
| General equipment | 5-10 |
| Computer software and equipment | 3-10 |

Net Position

The District classifies net position into three components:

- Net position invested in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of assets that are restricted by the District's creditors, by state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted net position – all remaining items of net position are reported in this category.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Property Taxes

Currently, the Board levies no property taxes.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Comparative Data

The financial statements contain certain prior year comparative information. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassifications

Certain amounts have been reclassified in the prior year for comparative purposes.

2. Stewardship, Compliance and Accountability

Budgetary Information

The District's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) with the following exception: capital outlays are treated as expenses for budget purposes. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

Prior to October 15 of each year the District Administrator (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget, for the fund, includes proposed expenses and the means of financing them.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

SNAKE RIVER WATER DISTRICT
Notes to Financial Statements
December 31, 2016

3. Detailed Notes Concerning the Fund

Deposits and Investments

Deposits and investments are classified in the accompanying financial statements as follows as of December 31, 2016:

| | |
|--|----------------------------|
| Cash and cash equivalents | \$ <u>2,923,429</u> |
| Current assets: | |
| Money market fund | 45,349 |
| Certificates of deposit - negotiable | 490,502 |
| U.S. Government Obligations and GSEs | <u>1,205,740</u> |
| Total current | <u>1,741,591</u> |
| Noncurrent assets: | |
| Certificates of deposit – non-negotiable | 246,567 |
| Certificates of deposit – negotiable | 1,987,328 |
| U.S. Government Obligations and GSEs | <u>2,038,345</u> |
| Total non-current | <u>4,272,240</u> |
| Total deposits and investments | \$ <u><u>8,937,260</u></u> |

Custodial Credit Risk: The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

As of December 1, 2014, the District adopted a formal investment policy, which is more restrictive than the Colorado Revised Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest. The allowed investment instruments may include but are not limited to:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

SNAKE RIVER WATER DISTRICT
Notes to Financial Statements
December 31, 2016

3. Detailed Notes Concerning the Fund (continued)

Deposits and Investments (continued)

Investments (continued)

As of December 31, 2016, the District had invested \$2,009,837 in the Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. As an investment pool, COLOTRUST PLUS+ operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by CRS 24-75-701. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00 and as such has been classified as cash and cash equivalents in the Statement of Net Position.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District limits its investments to those with lower risk for market fluctuations. In addition, the District's investment policy limits investment maturities to five years or less.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of December 31, 2016, COLOTRUST PLUS+ had a Standard and Poor's rating of AAAM. The District's two money market funds are not rated, one of which is included in cash and cash equivalents in the above table.

The District has invested in COLOTRUST PLUS+ , an external investment pool that records its investments at fair value. The investment in COLOTRUST of \$2,009,837 is categorized as a Level 2 investment and is valued using a matrix pricing technique.

As of December 31, 2016, the District's investments in U.S. government agency securities were rated AA+ by Standard and Poor's. The Tennessee Valley Authority bonds were not rated.

The District held the following investments as defined by GASB 40 as of December 31, 2016:

| Investment Type | Maturities | | | Total Fair Value | % of Portfolio held |
|---------------------------------|---------------------|---------------------|--------------|---------------------|---------------------|
| | Less Than 1 Year | 1-3 Years | 3-5 Years | | |
| Certificates of | | | | | |
| Deposit - negotiable | \$ 490,502 | \$ 1,987,328 | \$ -- | \$ 2,477,830 | 43.3% |
| Federal Farm Credit Banks | -- | 494,840 | -- | 494,840 | 8.7% |
| Federal Home Loan Bank | -- | 294,393 | -- | 294,393 | 5.2% |
| Tennessee Valley Authority | -- | 255,047 | -- | 255,047 | 4.5% |
| Federal Natl Mortgage Assoc | 500,345 | -- | -- | 500,345 | 8.7% |
| Federal Home Loan Mortgage Corp | 705,395 | 994,065 | -- | 1,699,460 | 29.6% |
| | <u>\$ 1,696,242</u> | <u>\$ 4,025,673</u> | <u>\$ --</u> | <u>\$ 5,721,915</u> | <u>100.0%</u> |

The above investments of \$5,721,915 which include negotiable certificates of deposit and U.S. sponsored mortgage-backed securities, are categorized as Level 2 investments and are valued using a matrix pricing technique.

3. Detailed Notes Concerning the Fund (continued)

Unearned Revenue

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. Per an agreement associated with a land exchange, one developer is required to pay the District a system investment (tap) fee of \$6,000 per Equivalent Rating (EQR). In 2014, the District received a prepayment of tap fees from a developer of \$137,100. As of December 31, 2016, unearned revenue remaining for prepaid tap fees amounted to \$120,000.

Net Position

A Capital Asset Acquisition study was completed by management in 2005 to analyze 20-year historical asset acquisitions and plan for future acquisitions. At that time, the District had established an asset replacement and reserve policy. In 2016, this policy was further clarified by Board resolution by establishing the Emergency Reserve Account which designated \$1,500,000 in unrestricted net position as of December 31, 2016 to be set aside for large, unanticipated repairs to the District's infrastructure. The Board also designated \$5,192,216 for capital improvements. This reserve will be increased annually by net operating and non-operating income before depreciation expense, and will be decreased by capital outlay costs. As of December 31, 2016, the designated portion of unrestricted net position related to this capital improvements reserve was \$6,554,832.

In addition, the District established a maintenance reserve for building improvements for each of the buildings the District subleases (see note 4 for a description of the subleases). As of December 31, 2016, the designated portion of unrestricted net position related to this maintenance reserve was \$21,805.

SNAKE RIVER WATER DISTRICT
Notes to Financial Statements
December 31, 2016

3. Detailed Notes Concerning the Fund (continued)

Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------------|---------------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land and water rights | \$ 7,553,618 | \$ -- | \$ -- | \$ 7,553,618 |
| Construction in progress | 15,235 | 28,258 | -- | 43,493 |
| Total capital assets, not being depreciated | <u>7,568,853</u> | <u>28,258</u> | <u>--</u> | <u>7,597,111</u> |
| Capital assets being depreciated: | | | | |
| Collection, storage and distribution system | 11,332,561 | 166,203 | -- | 11,498,764 |
| Buildings and improvements | 1,131,547 | -- | -- | 1,131,547 |
| General equipment | 169,104 | -- | -- | 169,104 |
| Computer software and equipment | 194,887 | 12,598 | -- | 207,485 |
| | <u>12,828,099</u> | <u>178,801</u> | <u>--</u> | <u>13,006,900</u> |
| Less accumulated depreciation for: | | | | |
| Collection, storage and distribution system | (7,411,866) | (332,918) | -- | (7,744,784) |
| Buildings and improvements | (349,768) | (31,381) | -- | (381,149) |
| General equipment | (141,822) | (3,410) | -- | (145,232) |
| Computer software and equipment | (176,770) | (8,597) | -- | (185,367) |
| | <u>(8,080,226)</u> | <u>(376,306)</u> | <u>--</u> | <u>(8,456,532)</u> |
| Total capital assets being depreciated, net | <u>4,747,873</u> | <u>(197,505)</u> | <u>--</u> | <u>4,550,368</u> |
| Total capital assets, net | \$ <u>12,316,726</u> | \$ <u>(169,247)</u> | \$ <u>--</u> | \$ <u>12,147,479</u> |

4. Operating Leases

The District subleases space in its maintenance building under three operating leases. The sub-lessees pay a minimum monthly rent plus maintenance reserves. Future minimum rental income amounts, including reserves are as follows:

| | |
|------------------------------------|-------------------------|
| Year ending <u>December 31,</u> | |
| 2017 | \$ 25,933 |
| 2018 | 26,627 |
| 2019 | 27,342 |
| 2020 | 8,155 |
| 2021 | <u>716</u> |
| Total | \$ <u>88,773</u> |

Rental income and maintenance for the year ended December 31, 2016 was \$29,203.

5. Other Information

Contractual Services Agreements

The District is obligated under an agreement with an outside party for the maintenance, repair and general operations of its facilities to include wells, pumping and plant equipment, water and service lines, and controls. The agreement automatically renews for successive one year terms. However, either party may terminate this agreement, for any reason, with ninety days written notice to the other party. For the year ended December 31, 2016, the District incurred \$215,738 in compliance with the terms of this agreement.

The District is obligated under an agreement with an outside party to provide administrative and executive services to the District. The agreement automatically renews for successive one year terms. However, either party may terminate this agreement, for any reason, with ninety days written notice to the other party. For the year ended December 31, 2016, the District incurred \$181,876 in compliance with the terms of this agreement.

Revenue Concentration

Vail Resorts, Inc. operates the Keystone resort and ski area. Properties owned by them are estimated to represent approximately 60% of the water fees collected by the District during 2016.

Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; and natural disasters for which the District carries commercial insurance.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by an intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability coverage. The District's management services contractors, Water Works West, LLC and Mountain Legacy Services, LLC, carry worker's compensation on all their employees. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2016.

5. Other Information (continued)

Tax, Spending and Debt Limitations

Article X, Section 20, of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax, spending, and revenue and debt limitations which apply to the State of Colorado and all local governments. Spending and revenue limits are determined based on the prior year's "fiscal year spending" adjusted for allowable increases based upon inflation and local growth. "Fiscal year spending" is generally defined as expenditures plus reserve increase with certain exceptions. Revenue in excess of the "fiscal year spending" limit must be refunded unless the voters approve retention of such revenue.

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.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of "fiscal year spending" (excluding bonded debt service). Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved a portion of its December 31, 2016 year-end net position for emergencies as required under TABOR of \$5,940, which is the approximate required reserve as of December 31, 2016.

The District's management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

OTHER SUPPLEMENTARY INFORMATION

SNAKE RIVER WATER DISTRICT
Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2016

| | Original and Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|---|---------------------------------|-------------------|---|
| Revenues: | | | |
| Water fees | \$ 1,192,644 | \$ 1,198,133 | \$ 5,489 |
| Investment income | 56,879 | 74,738 | 17,859 |
| System investment fees | 96,000 | 252,000 | 156,000 |
| Rental income | 28,466 | 29,203 | 737 |
| Miscellaneous | 4,000 | 7,218 | 3,218 |
| Total Revenues | <u>1,377,989</u> | <u>1,561,292</u> | <u>183,303</u> |
| Expenditures: | | | |
| Operations and maintenance: | | | |
| Water treatment contract | 215,756 | 215,738 | 18 |
| Repairs and maintenance | 75,000 | 119,158 | (44,158) |
| Utilities | 68,029 | 57,670 | 10,359 |
| Chemicals, lab fees and supplies | 10,628 | 6,116 | 4,512 |
| Engineering and design | 14,000 | 46,392 | (32,392) |
| Contingency | 20,000 | - | 20,000 |
| Total operations and maintenance | <u>403,413</u> | <u>445,074</u> | <u>(41,661)</u> |
| General and administration: | | | |
| Administration contract | 181,876 | 181,876 | - |
| Auditing and accounting | 8,450 | 11,163 | (2,713) |
| Computer support | 6,000 | 9,919 | (3,919) |
| Water engineering | 7,000 | 3,500 | 3,500 |
| Insurance | 24,000 | 20,840 | 3,160 |
| Legal fees | 19,500 | 8,926 | 10,574 |
| Forest Service and water rights leases | 8,287 | 8,287 | - |
| Office supplies and expense | 8,000 | 7,772 | 228 |
| Election expense | 1,000 | 76 | 924 |
| Miscellaneous | 6,500 | 2,810 | 3,690 |
| Board expenses | 7,000 | 3,602 | 3,398 |
| Contingency | 20,000 | - | 20,000 |
| Capital outlay | 2,136,656 | 77,067 | 2,059,589 |
| Total general and administration | <u>2,434,269</u> | <u>335,838</u> | <u>2,098,431</u> |
| Total Expenditures | <u>2,837,682</u> | <u>780,912</u> | <u>2,056,770</u> |
| Revenues over (under) expenditures | <u>\$ (1,459,693)</u> | <u>\$ 780,380</u> | <u>\$ (2,240,073)</u> |

The accompanying notes are an integral part of this statement.

SNAKE RIVER WATER DISTRICT
Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes
in Net Position
For the Year Ended December 31, 2016

| | |
|---|--------------------------|
| Revenue (budgetary basis) | \$ 1,561,292 |
| Capital contributions of assets | 129,992 |
| Revenues per Statement of Revenues, Expenses and Changes in Net Position | <u>1,691,284</u> |
| | |
| Expenditures (budgetary basis) | 780,912 |
| Depreciation | 376,306 |
| Capital outlay | (77,067) |
| Expenses per Statement of Revenues, Expenses and Changes in Net Position | <u>1,080,151</u> |
| | |
| Change in net position per Statement of Revenues, Expenses and Changes in Net Position | <u><u>\$ 611,133</u></u> |

The accompanying notes are an integral part of this statement.