

**MOUNTAIN WATER AND SANITATION DISTRICT
Conifer, CO**

**FINANCIAL STATEMENTS
December 31, 2016 and 2015**



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Green & Associates LLC

Certified Public Accountants & Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountain Water and Sanitation District

We have audited the accompanying financial statements of the business type activities and each major fund of Mountain Water and Sanitation District as of and for the year ended December 31, 2016 and 2015, which collectively comprise the District's basic financial statements as listed in the table of contents and the notes to the financial statements.

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 opinions 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Mountain Water and Sanitation District as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the District's Proportionate Share of the Net Pension Liability – PERA and Schedule of Pension Contributions – PERA on pages 3-6 and pages 26-27 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 Mountain Water and Sanitation District's basic financial statements as a whole. The other supplemental information, as listed in the table of contents, on pages 28-29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information 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.



June 12, 2017
Brighton, Colorado

Management's Discussion and Analysis

Mountain Water & Sanitation District

***12365 US Highway 285
Conifer, Colorado 80433***

Management's Discussion and Analysis

Introduction:

The Mountain Water & Sanitation District's management discussion and analysis is intended to provide you, the reader and user of our financial statements, with (a) an understanding of the financial issues of the District; (b) an overview of the District's financial activities; (c) an explanation of the changes in the District's financial position; (d) an explanatory analysis of the variations of the annual, approved budget; and, (e) an assessment of any future financial or operating issues of the District.

Because this discussion and analysis is intended to focus on the 2016 activities, resulting changes, and currently known facts and conditions, it should be read in conjunction with, and with reference to, the accompanying audited financial statements and related notes to the financial statements beginning on page 7.

Overview of the Financial Statements of the District:

The audited financial statements of the District are:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

These statements are on pages 7 through 20. These and the Supplementary Information, on page 26 through 29 provide information about the District's financial position as of each December 31, its results of operations and the resulting cash flows for each year ended December 31, and information comparing actual revenues and expenditures with budgeted revenues and expenditures for the year. Except for the budgetary comparison schedule, these are presented with current year and prior year comparison.

The **Statement of Net Position** provides information about what is owned (assets) by the District, what is owed (liabilities) by the District, and what is the District's equity in assets (net position). Over time, the comparison of changes in net position may provide a useful method of evaluating whether the financial position of the District is improving, deteriorating, or maintaining the status quo.

The **Statement of Revenues, Expenses, and Changes in Net Position** provides information about the components – Operating Revenues, Operating Expenses and Non-Operating Revenues and Expenses – of the District's annual operating activities and how those activities affected net position.

The **Statement of Cash Flows** provides an analysis about the sources and uses of District cash during the year and how the operating and investment activities affected the District's cash balances.

The **Notes to Financial Statements** provide additional, required disclosures about the District, its accounting policies and practices, its financial position and operating activities, and other required information. The information included in these notes is essential to a full understanding of the information contained in the financial statements.

The **Budgetary Comparison Schedule of Revenues and Expenditures** provides information comparing budgeted revenue and expenditure activities with the actual revenue and expenditure activities. When applicable, this will include a comparison of the originally approved budget with the final amended budget.

Condensed Comparative Financial Information:

| | Statement of Net Position | | |
|----------------------------------|----------------------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| Current Assets | | | |
| Cash and cash equivalents | \$ 1,142,919 | \$ 990,730 | \$ 767,363 |
| Other current assets | 317,918 | 316,751 | 1,109,469 |
| | <u>1,460,837</u> | <u>1,307,481</u> | <u>1,876,832</u> |
| Non Current Assets | | | |
| Capital assets – net | \$ 5,264,571 | \$ 5,468,379 | \$ 4,989,703 |
| Other non current assets | 47,840 | 47,840 | 43,602 |
| Total Assets | <u>6,773,248</u> | <u>6,823,700</u> | <u>6,910,137</u> |
| Deferred Outflows of Resources | <u>89,649</u> | <u>37,217</u> | <u>38,128</u> |
| Current Liabilities | 189,451 | 175,775 | 446,857 |
| Long – Term Debt | 2,572,391 | 2,664,403 | 2,817,497 |
| Total Liabilities | <u>2,761,842</u> | <u>2,840,178</u> | <u>3,264,354</u> |
| Deferred Inflows of Resources | <u>267,772</u> | <u>267,986</u> | <u>234,849</u> |
| Net Position | | | |
| Net investment in capital assets | 2,889,571 | 2,943,379 | 3,122,480 |
| Restricted | 108,333 | 95,471 | 96,960 |
| Unrestricted | 835,379 | 713,903 | 213,928 |
| Total Net Position | <u>\$ 3,833,283</u> | <u>\$ 3,752,753</u> | <u>\$ 3,433,368</u> |

Statement of Revenues, Expenses, and Changes in Net Position

| | 2016 | 2015 | 2014 |
|-----------------------------------|---------------------|---------------------|---------------------|
| Operating Revenues | \$ 508,626 | \$ 510,852 | \$ 485,891 |
| Operating Expenses | 708,232 | 581,667 | 604,468 |
| Operating Income (Loss) | <u>(199,606)</u> | <u>(70,815)</u> | <u>(118,577)</u> |
| Non Operating Revenues (Expenses) | <u>280,136</u> | <u>390,200</u> | <u>391,025</u> |
| Change in Net Position | 80,530 | 319,385 | 272,448 |
| Net Position, Beginning of Year | <u>3,752,753</u> | <u>3,433,368</u> | <u>3,160,920</u> |
| Net Position, End of Year | <u>\$ 3,833,283</u> | <u>\$ 3,752,753</u> | <u>\$ 3,433,368</u> |

Statement of Cash Flows

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|-------------------|-------------------|
| Cash from (for) Operating Activities | \$ 22,053 | \$ (202,190) | \$ 242,984 |
| Cash from Non Capital Financing Activities | 274,088 | 483,929 | 351,239 |
| Cash from (for) Capital and Related Financing Activities | (150,000) | (60,478) | (488,448) |
| Cash from (for) Investing Activities | <u>6,048</u> | <u>2,106</u> | <u>1,204</u> |
| Increase (Decrease) | <u>152,189</u> | <u>223,367</u> | <u>106,979</u> |
| Cash and Cash Equivalents, Beginning of Year | 990,730 | 767,363 | 660,384 |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,142,919</u> | <u>\$ 990,730</u> | <u>\$ 767,363</u> |

This foregoing information is a summary of the financial information contained in the District's financial statements. For more about the information contained in this condensed, comparative financial information, we recommend a close review of the accompanying audited financial statements beginning on page 7.

Analysis of Financial Position and Operating Results:

Net position increased in 2016 by \$80,530 to \$3,833,283 which is the result of the operating loss of \$199,606, less net non-operating revenues of \$280,136.

Unrestricted cash, cash equivalents, and investments of the District at December 31, 2016, totaled \$1,142,919, which represents approximately 78% of the District's current assets and approximately 17% of the District's total assets.

Capital Assets, net of accumulated depreciation, of the District at December 31, 2016, totaled \$5,264,571.

Operating income / (loss) for 2016, before depreciation and amortization expense, was \$4,202 in 2016 compared to \$68,692 in 2015. This was principally due to increased system operating costs for the year.

Net non-operating revenues for 2016 were \$110,064 less than in 2015, due to lower tap and capital improvement fees offset by the loss on disposal of capital assets. For more information about these changes in net position and the operating activities, please review the accompanying audited financial statements beginning on page 7.

Analysis of Budgetary Comparison Schedule of Revenues and Expenditures:

Actual revenues in 2016 were \$175,401 less than the original and final budgeted revenues for the District. This is principally due to receiving less grant revenues than anticipated. The Districts actual expenditures in 2016 were \$238,730 less than the original and final budgeted expenditures. This is principally due to lower than budgeted capital spending. For more information about the budgeted and actual revenues and expenditures, please review the Budgetary Comparison Schedule of Revenues and Expenditures, which is on page 28 in the accompanying audited financial statements.

Capital Asset and Long Term Debt Activity:

The 2016 budget authorized \$350,000 in capital spending. Actual capital spending in 2016 was \$0.

The District acquired no new long-term debt. The District has two notes that requires principal payments of \$150,000 per year until the notes are retired and bears interest at a rate of 0%. For more information about the District's capital assets and long-term debt, please review pages 16 through 17 of the Notes to Financial Statements in the accompanying audited financial statements.

The District depreciates its capital assets. See Note 1 of Notes to Financial Statements – Summary of Significant Accounting Policies – Assets and Liabilities – Capital Assets on page 12 and Note 4 of Notes to Financial Statements – Capital Assets on pages 15-16.

Facts, Decisions, and Conditions That May Impact Future Financial Condition or Operating Results:

Ageing infrastructure is the only known condition that may impact future financial or operating results. Most of the District's water and wastewater mains were installed 40 to 50 years ago. The District's unrestricted cash reserves will not cover the cost of new mains. The District is utilizing strict controls to ensure that revenues exceed expenditures so that the unrestricted cash reserves will increase over the next several years. The District will also continue to apply for grant money to fund infrastructure projects.

Ken Pfohl
Manager
Mountain Water and Sanitation District

Basic Financial Statements

Mountain Water and Sanitation District
Statement of Net Position
December 31, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,142,919 | \$ 990,730 |
| Accounts receivable-service charges | 47,228 | 47,801 |
| Taxes receivable - County Treasurer | 1,711 | 1,711 |
| Property taxes receivable | 254,677 | 252,939 |
| Prepaid expenses | 14,302 | 14,300 |
| Total Current Assets | 1,460,837 | 1,307,481 |
| Noncurrent Assets | | |
| Investment in cooperatives | 38,339 | 38,339 |
| Decommissioning escrow account | 9,312 | 9,312 |
| Deposits | 189 | 189 |
| | 47,840 | 47,840 |
| Capital assets | | |
| Nondepreciable | 239,388 | 239,388 |
| Depreciable | 7,668,021 | 7,668,021 |
| Less: Accumulated depreciation | (2,642,838) | (2,439,030) |
| Net Capital Assets | 5,264,571 | 5,468,379 |
| Total Noncurrent Assets | 5,312,411 | 5,516,219 |
| Total Assets | 6,773,248 | 6,823,700 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows - Pensions | 89,649 | 37,217 |
| Total Deferred Outflows of Resources | 89,649 | 37,217 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | 29,096 | 13,865 |
| Other accrued liabilities | 5,010 | 6,565 |
| Prepaid development fees | 5,345 | 5,345 |
| Long-term debt, current portion | 150,000 | 150,000 |
| Total Current Liabilities | 189,451 | 175,775 |
| Noncurrent Liabilities | | |
| Net pension liability | 347,391 | 289,403 |
| Long-term debt, net of current portion | 2,225,000 | 2,375,000 |
| Total Long Term Liabilities | 2,572,391 | 2,664,403 |
| Total Liabilities | 2,761,842 | 2,840,178 |
| Deferred Inflows of Resources | | |
| Deferred Inflows - Pensions | 13,095 | 15,047 |
| Deferred property taxes | 254,677 | 252,939 |
| Total Deferred Inflows of Resources | 267,772 | 267,986 |
| Net Position | | |
| Net investment in capital assets | 2,889,571 | 2,943,379 |
| Restricted for emergencies | 15,132 | 2,270 |
| Restricted for debt service | 93,201 | 93,201 |
| Unrestricted | 835,379 | 713,903 |
| Total Net Position | \$ 3,833,283 | \$ 3,752,753 |

The accompanying notes are an integral part of these financial statements

Mountain Water and Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Operating Revenues | | |
| Service charges | \$ 491,775 | \$ 492,489 |
| Delinquent charges | 7,764 | 8,183 |
| Other revenue | 9,087 | 10,180 |
| | <u>508,626</u> | <u>510,852</u> |
| Operating Expenses | | |
| Wages and employee benefits | 210,341 | 216,782 |
| Depreciation | 203,808 | 139,507 |
| Water and wastewater system | 177,897 | 130,567 |
| General and administration | 116,186 | 94,811 |
| | <u>708,232</u> | <u>581,667</u> |
| Total Operating Expenses | <u>708,232</u> | <u>581,667</u> |
| Operating Loss | <u>(199,606)</u> | <u>(70,815)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes - operations | 109,257 | 206,634 |
| Property taxes - debt service | 143,520 | 143,520 |
| Specific ownership taxes | 20,311 | 19,499 |
| Grants | - | 114,553 |
| Investment income | 6,048 | 2,106 |
| Tap and capital improvement fees | - | 290,542 |
| Availability fees | 4,816 | 4,991 |
| Loss on disposal of assets | - | (386,377) |
| County treasurer fees | (3,816) | (5,268) |
| | <u>280,136</u> | <u>390,200</u> |
| Total Nonoperating Revenues (Expenses) | <u>280,136</u> | <u>390,200</u> |
| Change in Net Position | 80,530 | 319,385 |
| Net Position, beginning of year | <u>3,752,753</u> | <u>3,433,368</u> |
| Net Position, end of year | <u>\$ 3,833,283</u> | <u>\$ 3,752,753</u> |

The accompanying notes are an integral part of these financial statements

Mountain Water and Sanitation District
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Cash received from customers | \$ 509,199 | \$ 514,296 |
| Cash paid to suppliers | (321,982) | (546,751) |
| Cash paid to employees | (165,164) | (169,735) |
| Net cash provided (used) by operating activities | <u>22,053</u> | <u>(202,190)</u> |
| Cash Flows From Non-Capital Financing Activities | | |
| Property taxes net of treasurer fees | 248,961 | 344,886 |
| Specific ownership taxes | 20,311 | 19,499 |
| Grant revenue | - | 114,553 |
| Availability fees received | 4,816 | 4,991 |
| Net cash provided (used) by non-capital financing activities | <u>274,088</u> | <u>483,929</u> |
| Cash Flows From Capital And Related Financing Activities | | |
| Acquisitions and construction of capital assets | - | (1,004,559) |
| Proceeds from loan | - | 807,777 |
| Investment in cooperatives | - | (4,238) |
| Principal paid on loan | (150,000) | (150,000) |
| Tap and capital improvement fees collected | - | 290,542 |
| Net cash provided (used) in capital and related financing activities | <u>(150,000)</u> | <u>(60,478)</u> |
| Cash Flows From Investing Activities | | |
| Investment income received | 6,048 | 2,106 |
| Net cash provided (used) by investing activities | <u>6,048</u> | <u>2,106</u> |
| Net increase (decrease) in cash and cash equivalents | 152,189 | 223,367 |
| Cash and cash equivalents, beginning of year | 990,730 | 767,363 |
| Cash and cash equivalents, end of year | <u>\$ 1,142,919</u> | <u>\$ 990,730</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating Loss | \$ (199,606) | \$ (70,815) |
| Adjustments to reconcile operating loss to cash provided / (used) by operating activities | | |
| Depreciation | 203,808 | 139,507 |
| Change in pension related items | 3,604 | (2,831) |
| Changes in assets and liabilities | | |
| Accounts receivable | 573 | 3,444 |
| Cash at county treasurer | - | - |
| Prepaid expenses | (2) | (413) |
| Accounts payable | 15,231 | (271,154) |
| Other accrued liabilities | (1,555) | 72 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 22,053</u> | <u>\$ (202,190)</u> |

The accompanying notes are an integral part of these financial statements

Mountain Water and Sanitation District
Notes to Financial Statements
December 31, 2016 and 2015

Note 1 Summary of Significant Accounting Policies

The Mountain Water and Sanitation District is a quasi-municipal corporation governed pursuant to provisions of the Colorado Special District Act. The District was established to provide water and sanitation services within its jurisdictional boundaries.

The financial statements of the Mountain Water and Sanitation District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District follows all pronouncement issued by the Governmental Accounting Standards Board (GASB) which is the authoritative body. The significant accounting policies are described below.

Financial Reporting Entity

In accordance with governmental accounting standards, the Mountain Water and Sanitation District has considered the possibility of inclusion of additional entities in its financial statements. The definition of the reporting entity is based primarily on financial accountability.

The District is not financially accountable for any other entity, nor is the District a component unit of any other governmental entity; therefore, no other entities are included in the District's financial statements.

Basis of Presentation

Enterprise fund accounting is utilized by the District in accordance with accounting principles generally accepted in the United States of America.

Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital outlay are recognized as increases in capital assets. Retirement of bonds is recorded as a reduction of liabilities.

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and service. 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 nonoperating revenues and expenses.

The District follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* and Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These statements establishes standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis

**Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015**

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Accounting (continued)

section; a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. It requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted.

Budgets and Budgetary Accounting

Budgets are adopted on a cash basis except for accrual of current vendor invoices and utility billings. Annual appropriated budgets are adopted for the fund. All annual appropriations lapse at fiscal year-end. The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- Budgets are required by state law for all funds. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at year-end.
- Prior to December 31, the budget is adopted by formal resolution.
- Budgets are required to be filed with the State of Colorado within thirty days after the beginning of the fiscal year.
- Expenditures may not legally exceed appropriations at the fund level.
- The District Board must approve revisions that alter the total expenditures of any fund.
- Budgeted amounts reported in the accompanying financial statements are as originally adopted by the District Board or revised by the District Board.

Property Taxes

The County Treasurer collects and remits property taxes to the District monthly. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied for the current year prior to December 31 and are payable in full on April 30 of the subsequent year, or in two installments on February 28 and June 15. Property taxes are recorded as receivables and deferred revenue when levied. As taxes are collected, the receivable and deferral are reduced and income is recognized.

Allowance of Doubtful Accounts

No allowance is made for bad debts in the accompanying financial statements as substantially all revenues of the district originate from charges to the owners of the District, and the District has the ability to place liens on the property.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed once a month on 30 day cycles.

Assets and Liabilities

Investments – investments are recorded at fair value, which approximates cost.

Receivables – all receivables are reported at their book value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 1 Summary of Significant Accounting Policies (Continued)

Capital assets - assets are stated at cost or estimated cost. The capitalization threshold for fixed assets is \$5,000. Depreciation over the estimated useful lives of the assets is computed using the straight-line method. The estimated useful lives are 50 years for water and wastewater lines, 50 years for disposal facilities, and 3 to 20 years for operating and office equipment.

Accrued vacation and sick pay - district employees accrue vacation and sick pay benefits based on tenure. The District recognizes the expense as they are incurred. Any vacation time that is not used by the end of the year is paid out by the District.

Net Position

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The District utilizes restricted net position before utilizing unrestricted net position when an expense is incurred for both purposes.
- c. Unrestricted net position – all other net position that does not meet the definition of “restricted” or net investment in capital assets.” These net position are available for future operations or distributions.

Deferred Outflows / Inflows of Resources

The District implemented the provisions of GASB No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position (GASB 63) and the provisions of GASB No. 65 Items Previously Reported as Assets and Liabilities (GASB 65). As a result in addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources and deferred inflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period (deferred outflow) or the acquisition of net position that applies to future periods (deferred inflows).

Cash Equivalents

For purposes of the statement of cash flows and the statement of net position, cash equivalents are defined as investments (including restricted assets) with maturity of three months or less at date of acquisition. The District considers certificates of deposit with maturities of more than three months at date of purchase as investments.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Financial Statements

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

Note 2 Cash and Investments

Cash Deposits

As of December 31, 2016 and 2015, the District's cash deposits had a carrying balance of \$350,370 and \$203,297 a corresponding bank balance of \$351,639, and \$202,655, all of which were insured by the Federal Deposit Insurance Corporation, respectively.

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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified under the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Colorado Divisions of Banking 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.

Custodial Credit Risk – 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 deposits were exposed to custodial credit risk.

Investments

Colorado statutes specify in which investment instruments the units of local government may invest:

- Obligations of the United States and certain United States government agency securities.
- Certain international agency securities.
- General obligation and revenue bonds of United States 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.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 2 Cash and Investments (Continued)

At December 31, 2016 and 2015, the District had \$792,349 and \$787,233 invested in Colorado Local Government Liquid Asset Trust (COLOTRUST), respectively, which is an investment vehicle established for government entities in Colorado to pool surplus funds. As an investment pool, COLOTRUST (the Trust) operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner.

The Trust invests in securities that are specified by the Colorado Revised Statutes (24-75-601). Authorized securities include US Treasuries, US Agencies, commercial paper, repurchase agreements and bank deposits (collateralized through PDPA). The Trust operates similar to a 2a7-like money market fund with a share value equal to \$1.00 and a maximum weighted average maturity of 60 days. COLOTRUST is rated AAA by the Standard & Poor's Corporation. Designated custodial banks provide safekeeping and depository services to the Trusts in connection with the direct investment and withdrawal functions of the Trust. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the account maintained for the custodial bank.

In accordance with GASB 72 *Certain External Investment Pools and Pool Participants*, the District categorizes its fair value measurements 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The investments in COLOTRUST were valued at amortized cost.

A summary of cash and investments at December 31, 2016 and 2015, is as follows:

| | 2016 | 2015 |
|---------------------------------|--------------|------------|
| Cash on hand | \$ 200 | \$ 200 |
| Cash deposits | 350,370 | 203,297 |
| COLOTRUST | 792,349 | 787,233 |
| Total cash and cash equivalents | \$ 1,142,919 | \$ 990,730 |

Note 3 Accounts Receivable

Accounts receivable balance at December 31, 2016 and 2015, was comprised of the following:

| | 2016 | 2015 |
|--------------------------------------|-----------|-----------|
| Water and sewer charges | \$ 47,228 | \$ 47,801 |
| Less allowance for doubtful accounts | - | - |
| Net Accounts Receivable | \$ 47,228 | \$ 47,801 |

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 4 Capital Assets

A summary of changes to capital assets for 2016 and 2015 is as follows:

| | Balance at 12/31/2015 | Additions | Deletions | Balance at 12/31/2016 |
|--------------------------------------|--------------------------|---------------------|-------------|--------------------------|
| Nondepreciable | | | | |
| Land easements and water rights | \$ 239,388 | \$ - | \$ - | \$ 239,388 |
| Construction in progress | - | - | - | - |
| Total Nondepreciable | <u>239,388</u> | <u>-</u> | <u>-</u> | <u>239,388</u> |
| Depreciable | | | | |
| Water facilities and lines | 4,527,376 | - | - | 4,527,376 |
| Sewer plant and lines | 2,681,344 | - | - | 2,681,344 |
| Buildings | 112,902 | - | - | 112,902 |
| Land improvements | 4,900 | - | - | 4,900 |
| Operating equipment | 1,160 | - | - | 1,160 |
| Office equipment | 37,095 | - | - | 37,095 |
| Vehicles | 52,365 | - | - | 52,365 |
| Sliplining | 250,879 | - | - | 250,879 |
| Total Depreciable | <u>7,668,021</u> | <u>-</u> | <u>-</u> | <u>7,668,021</u> |
| TOTAL | <u>7,907,409</u> | <u>-</u> | <u>-</u> | <u>7,907,409</u> |
| Less Accumulated Depreciation | | | | |
| Water facilities and lines | (2,041,692) | (102,974) | - | (2,144,666) |
| Sewer plant and lines | (8,265) | (89,983) | - | (98,248) |
| Buildings | (84,104) | - | - | (84,104) |
| Land improvements | (2,879) | (245) | - | (3,124) |
| Operating equipment | (14,824) | (2,234) | - | (17,058) |
| Office equipment | (15,407) | (1,172) | - | (16,579) |
| Vehicles | (44,137) | (5,196) | - | (49,333) |
| Sliplining | (227,722) | (2,004) | - | (229,726) |
| Total Accumulated Depreciation | <u>(2,439,030)</u> | <u>(203,808)</u> | <u>-</u> | <u>(2,642,838)</u> |
| Net Capital Assets | <u>\$ 5,468,379</u> | <u>\$ (203,808)</u> | <u>\$ -</u> | <u>\$ 5,264,571</u> |

Depreciation expense for the year ended December 31, 2016 was \$203,808.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 4 Capital Assets (Continued)

| | Balance at 12/31/2014 | Additions | Deletions | Balance at 12/31/2015 |
|--------------------------------------|--------------------------|---------------------|-----------------------|--------------------------|
| Nondepreciable | | | | |
| Land easements and water rights | \$ 239,388 | \$ - | \$ - | \$ 239,388 |
| Construction in progress | <u>1,673,753</u> | <u>1,004,559</u> | <u>(2,678,312)</u> | <u>-</u> |
| Total Nondepreciable | <u>1,913,141</u> | <u>1,004,559</u> | <u>(2,678,312)</u> | <u>239,388</u> |
| Depreciable | | | | |
| Water facilities and lines | 4,527,376 | - | - | 4,527,376 |
| Sewer plant and lines | 890,638 | 2,678,312 | (887,606) | 2,681,344 |
| Buildings | 112,902 | - | - | 112,902 |
| Land improvements | 4,900 | - | - | 4,900 |
| Operating equipment | 17,058 | - | (15,898) | 1,160 |
| Office equipment | 37,095 | - | - | 37,095 |
| Vehicles | 52,365 | - | - | 52,365 |
| Sliplining | 250,879 | - | - | 250,879 |
| Total Depreciable | <u>5,893,213</u> | <u>2,678,312</u> | <u>(903,504)</u> | <u>7,668,021</u> |
| TOTAL | <u>7,806,354</u> | <u>3,682,871</u> | <u>(3,581,816)</u> | <u>7,907,409</u> |
| Less Accumulated Depreciation | | | | |
| Water facilities and lines | (1,938,461) | (103,231) | - | (2,041,692) |
| Sewer plant and lines | (485,296) | (24,198) | 501,229 | (8,265) |
| Buildings | (83,079) | (1,025) | - | (84,104) |
| Land improvements | (2,634) | (245) | - | (2,879) |
| Operating equipment | (12,387) | (2,437) | - | (14,824) |
| Office equipment | (30,135) | (1,171) | 15,899 | (15,407) |
| Vehicles | (38,941) | (5,196) | - | (44,137) |
| Sliplining | (225,718) | (2,004) | - | (227,722) |
| Total Accumulated Depreciation | <u>(2,816,651)</u> | <u>(139,507)</u> | <u>517,128</u> | <u>(2,439,030)</u> |
| Net Capital Assets | <u>\$ 4,989,703</u> | <u>\$ 3,543,364</u> | <u>\$ (3,064,688)</u> | <u>\$ 5,468,379</u> |

Depreciation expense for the year ended December 31, 2015 was \$139,507.

Note 5 Long-term Debt

The District's long-term debt is as follows:

Drinking Water Revolving Fund Direct Loan – The District entered into a long term note with Colorado Water Resources and Power Development Authority on July 13, 2015 with a principal balance of \$1,000,000 and an interest rate of 0%. Payments in the amount of \$25,000 are due semi-annually through 2031. The note was secured by any and all moneys available to the District.

Water Pollution Control Revolving Fund Loan – The District entered into a long term note with Colorado Water Resources and Power Development Authority on November 19, 2016 with a principal balance of \$2,000,000 and an interest rate of 0%. Payments in the amount of \$50,000 are due semi-annually through 2033. The note was secured by any and all moneys available to the District.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 5 Long-term Debt (Continued)

Changes in Long-term Debt during 2016 and 2015 were as follows:

| | Balance 12/31/2015 | Additions | Reductions | Balance 12/31/2016 | Amounts Due Within One Year |
|-----------------------|-----------------------|-------------|-------------------|-----------------------|-----------------------------------|
| Note Payable - CWRPDA | \$ 775,000 | \$ - | \$ 50,000 | \$ 725,000 | \$ 50,000 |
| Note Payable - CWRPDA | 1,750,000 | - | 100,000 | 1,650,000 | 100,000 |
| Total Long-term Debt | <u>\$ 2,525,000</u> | <u>\$ -</u> | <u>\$ 150,000</u> | <u>\$ 2,375,000</u> | <u>\$ 150,000</u> |

| | Balance 12/31/2014 | Additions | Reductions | Balance 12/31/2015 | Amounts Due Within One Year |
|-----------------------|-----------------------|-------------|-------------------|-----------------------|-----------------------------------|
| Note Payable - CWRPDA | \$ 825,000 | \$ - | \$ 50,000 | \$ 775,000 | \$ 50,000 |
| Note Payable - CWRPDA | 1,850,000 | - | 100,000 | 1,750,000 | 100,000 |
| Total Long-term Debt | <u>\$ 2,675,000</u> | <u>\$ -</u> | <u>\$ 150,000</u> | <u>\$ 2,525,000</u> | <u>\$ 150,000</u> |

Future debt service requirements are as follows:

| Year ending December 31, | Principal | Interest | Total |
|-----------------------------|---------------------|-------------|---------------------|
| 2017 | 150,000 | - | 150,000 |
| 2018 | 150,000 | - | 150,000 |
| 2019 | 150,000 | - | 150,000 |
| 2020 | 150,000 | - | 150,000 |
| 2021 | 150,000 | - | 150,000 |
| 2022-2026 | 750,000 | - | 750,000 |
| 2027-2031 | 750,000 | - | 750,000 |
| 2032-2033 | 125,000 | - | 125,000 |
| Total | <u>\$ 2,375,000</u> | <u>\$ -</u> | <u>\$ 2,375,000</u> |

Note 6 Tax, Spending, and Debt Limitation

Article X, Section 20 of the Colorado Constitution, The Taxpayer's Bill of Rights (TABOR), contains several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. The District has created a Water and Wastewater statutory enterprise operation in compliance with Colorado law, which exempts certain business-like operations from Article X, Section 20 of the Colorado Constitution. In 2016 the District's voters approved a ballot issue that exempts the District from Revenue limitations.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 Defined Benefit Pension Plan

Pensions

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

Plan Description

Eligible employees of the District are provided with pensions through the Local Government Division Trust Fund (LGDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factor.

In all cases the retirement benefit is limited to 100 percent of the highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code. Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 Pension Plans (Continued)

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R>S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPW-W) for the prior calendar year.

Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's annual Increase Reserve for the LGDTF.

Disability benefits are available to employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Funding Policy - The District is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% and for the District it is 10.0% of covered salary. A portion of the District's contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund. The District was also required to pay an amortization equalization disbursement ("AED") equal to 2.2% of the total payroll for the calendar year 2016. Additionally, the District was required to pay a supplemental amortization equalization disbursement ("SAED") equal to 1.5% of the total payroll for the calendar year 2016. If the District rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay the employer contribution rate, the AED and the SAED on the amounts paid for the retiree. For the years ending December 31, 2016, the District's required employer contributions to the LGDTF were \$24,346 at a combined rate of 12.68%.

At December 31, 2016, the District reported a liability of \$289,403 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2015 relative to the total contributions of participating employers to the LGDTF.

**Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015**

Note 7 Pension Plans (Continued)

At December 31, 2015, the District's proportion was .0315356555% which was an increase of .0322882804% as measured at of December 31, 2014. For the year ended December 31, 2016, the District recognized pension expense of \$(23,772). At December 31, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between actual and expected experience | \$ 2,606 | \$ 1 |
| Changes in assumptions | \$ 0 | \$ 6,364 |
| Net difference between actual and projected earnings on pension plan investments | \$ 66,876 | \$ 0 |
| Net impact in change in proportionate share | \$ 0 | \$ 6,719 |
| Contributions subsequent to the measurement date | \$ 20,167 | N/A |
| Total | \$89,649 | \$13,095 |

The \$20,167 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts related to pensions will be recognized in pension expense as follows:

| Year Ended | Pension Expense |
|------------|--------------------|
| 2017 | \$ 2,812 |
| 2018 | 5,318 |
| 2019 | 15,134 |
| 2020 | 13,375 |
| 2021 | 13,375 |
| Total | <u>\$ 50,014</u> |

Actuarial Assumptions- The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation 2.80 percent
Real wage growth 1.10 percent
Wage inflation 3.90 percent
Salary increases, including wage inflation 3.90 - 10.85 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation 7.50 percent

Post-retirement benefit increases:

PERA Benefit Structure hired prior to 1/1/07: and DPS Benefit Structure (automatic) 2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic) Financed by the Annual Increase Reserve

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 Pension Plans (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. The actuarial assumptions used in December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014. Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year

The LGDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

**Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015**

Note 7 Pension Plans (Continued)

| Asset Class | Target Allocation | 10 Year Expected Geometric Real Rate of Return |
|-----------------------------|--------------------------|---|
| U.S. Equity – Large Cap | 26.76% | 5.00% |
| U.S. Equity – Small Cap | 4.40% | 5.19% |
| Non U.S. Equity – Developed | 22.06% | 5.29% |
| Non U.S. Equity – Emerging | 6.24% | 6.76% |
| Core Fixed Income | 24.05% | 0.98% |
| High Yield | 1.53% | 2.64% |
| Long Duration Gov't/Credit | 0.53% | 1.57% |
| Emerging Market Bonds | 0.43% | 3.04% |
| Real Estate | 7.00% | 5.09% |
| Private Equity | 7.00% | 7.15% |
| Total | 100.00% | |

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

**Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015**

Note 7 Pension Plans (Continued)

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

| Discount Rate: | 6.50% | 7.50% | 8.50% |
|--|--------------|--------------|--------------|
| Proportionate share of the net pension liability | \$532,586 | \$347,391 | \$ 193,790 |

Defined Contribution Pension Plans

Voluntary Investment Program

Plan Description - Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended December 31, 2016 program members contributed \$0 and the District recognized pension expense and a liability of \$0 and \$0 respectively, for the Voluntary Investment Program.

**Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015**

Note 7 Pension Plans (Continued)

Other Post-Employment Benefits

Health Care Trust Fund

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

Funding Policy – The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending December 31, 2016, 2015 and 2014 the District contributions to the HCTF was \$9,312, \$8,293, and \$8,887, respectively, equal to their required contributions for each year.

Note 8 Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The District is a participant in the Colorado Special District Association Property and Liability Pool. The Pool was formed by an agreement by member special districts of the Special District Association as a separate and independent governmental and legal entity pursuant to the provisions of Article XIV, Section 18(2) of the Colorado Constitution and Sections 29-1-201 et. seq., 8-44-101(1)(c) and (3), 8-44-204, 24-10-115.5, and 29-13-102, C.R.S, as amended. Membership is restricted to Colorado special districts which are members of the Special District Association.

The purpose of the Pool is to provide defined property, liability, workers' compensation and associated coverages, and claims and risk management services related thereto, for member special districts through a self-insurance pool. The Pool has contracted with other third parties to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceed amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, additional contributions may be required from the Pool members. The District's settled claims have not exceeded its insurance coverage in any of the last three years.

Mountain Water and Sanitation District
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 9 Restricted Net position

The District has established an emergency reserve of \$15,132 and \$2,270 as of December 31, 2016 and 2015, respectively, to comply with Article X, Section 20 of the Colorado Constitution. The District has restricted a portion of property taxes collected and availability fees collected for the use of debt service in the amount of \$91,537 and \$93,201 as of December 31, 2016 and 2015, respectively.

Note 10 Reclassifications and Subsequent Events

Certain items have been reclassified from the previous year to conform with the presentation of the current years financial statements. The District has evaluated subsequent events through June 12, 2017.

Required Supplementary Information

Mountain Water and Sanitation District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability - PERA
Last 10 Fiscal Years *

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------------------|-----------------------|-------------------------|
| District's proportion of the net pension liability | 0.0315356555% | 0.0322882804% | 0.0355438113% |
| District's proportional share of the net pension liability | \$ 347,391 | \$ 289,403 | \$ 292,497 |
| District's covered payroll | 169,735 | 176,924 | 186,380 |
| Total pension liability | 4,762,090,000 | 4,647,777,000 | 4,517,239,000 |
| Plan fiduciary net position | <u>3,660,509,000</u> | <u>3,751,468,000</u> | <u>3,508,312,000</u> |
| Net pension liability | <u>\$ 1,101,581,000</u> | <u>\$ 896,309,000</u> | <u>\$ 1,008,927,000</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 77% | 81% | 78% |

* Information for the prior 7 years was not available to report

**Mountain Water and Sanitation District
Required Supplementary Information
Schedule of Pension Contributions - PERA
Last 10 Fiscal Years**

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Statutorily Required Contribution | 20,167 | 21,523 | 22,434 | 25,979 | 25,606 | 23,586 | 24,222 | 21,371 | 18,261 | 15,448 |
| Contributions in Relation to the Statutorily Required Contribution | 20,167 | 21,523 | 22,434 | 25,979 | 25,606 | 23,586 | 24,222 | 21,371 | 18,261 | 15,448 |
| Contribution Deficiency (Excess) | - | - | - | - | - | - | - | - | - | - |
| Covered Payroll | 159,046 | 169,735 | 176,924 | 186,380 | 170,907 | 170,653 | 175,202 | 164,182 | 151,851 | 138,831 |
| Contributions as a % of Covered Payroll | 12.68% | 12.68% | 12.68% | 13.94% | 14.98% | 13.82% | 13.83% | 13.02% | 12.03% | 11.13% |

See the accompanying Independent Auditor's report

Other Supplementary Information

Mountain Water and Sanitation District
Budgetary Comparison Schedule - Non GAAP Basis
For the Year Ended December 31, 2016

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|---------------------------------|-------------------|--|
| Revenues | | | |
| Service fees | \$ 486,000 | \$ 491,775 | \$ 5,775 |
| Property taxes - operations | 109,419 | 109,257 | (162) |
| Property taxes - debt service | 143,520 | 143,520 | - |
| Specific ownership taxes | 18,360 | 20,311 | 1,951 |
| Delinquent charges | - | 7,764 | 7,764 |
| Investment income | 2,200 | 6,048 | 3,848 |
| Availability fees | 6,480 | 4,816 | (1,664) |
| Other income | 2,000 | 9,087 | 7,087 |
| Grants | 200,000 | - | (200,000) |
| Tap, capital improvement, and sub-area fees | - | - | - |
| Total Revenues | <u>967,979</u> | <u>792,578</u> | <u>\$ (175,401)</u> |
| Expenses | | | |
| Personnel expenses | 180,473 | 210,341 | (29,868) |
| System operating expenses | 110,524 | 177,897 | (67,373) |
| General and administrative | 101,291 | 116,186 | (14,895) |
| County treasurer fees | 4,682 | 3,816 | 866 |
| Bond principal and interest | 150,000 | 150,000 | - |
| Capital outlay | 350,000 | - | 350,000 |
| Contingency | - | - | - |
| Total Expenses | <u>896,970</u> | <u>658,240</u> | <u>238,730</u> |
| Revenues (under) Expenditures | <u>\$ 71,009</u> | <u>\$ 134,338</u> | |
| Reconciliation to statement of revenues, expenditures and changes in net position | | | |
| Depreciation expense | | (203,808) | |
| Capital outlay | | - | |
| Bond principal | | 150,000 | |
| Change in net position | | <u>80,530</u> | |

See the Independent Auditor's report

Mountain Water and Sanitation District
Schedule of Operations by Activity
For the Year Ended December 31, 2016

| | <u>Water</u> | <u>Wastewater</u> | <u>Total 2016</u> |
|--|-----------------|-------------------|-----------------------|
| Operating Revenues | | | |
| Metered water sales | \$ 294,836 | \$ - | \$ 294,836 |
| Wastewater treatment charges | - | 196,939 | 196,939 |
| Other revenue | 5,452 | 3,635 | 9,087 |
| Delinquent charges | 4,658 | 3,106 | 7,764 |
| | <u>304,946</u> | <u>203,680</u> | <u>508,626</u> |
| Operating Expenses | | | |
| Wages and employee benefits | 126,205 | 84,136 | 210,341 |
| Depreciation | 108,282 | 95,526 | 203,808 |
| System operating expenses | 106,738 | 71,159 | 177,897 |
| General and administration | 69,712 | 46,474 | 116,186 |
| | <u>410,937</u> | <u>297,295</u> | <u>708,232</u> |
| Total Operating Expenses | <u>410,937</u> | <u>297,295</u> | <u>708,232</u> |
| Operating Loss | (105,991) | (93,615) | (199,606) |
| Non Operating Revenues (Expenses) | | | |
| Property taxes - operations | 50,111 | 59,146 | 109,257 |
| Property taxes - debt service | 47,592 | 95,928 | 143,520 |
| Specific ownership taxes | 9,672 | 10,639 | 20,311 |
| Investment income | 714 | 5,334 | 6,048 |
| Availability fees | 2,408 | 2,408 | 4,816 |
| County treasurer fees | (1,199) | (2,617) | (3,816) |
| | <u>109,298</u> | <u>170,838</u> | <u>280,136</u> |
| Total Non Operating Revenues (Expenses) | <u>109,298</u> | <u>170,838</u> | <u>280,136</u> |
| Change in Net Position | <u>\$ 3,307</u> | <u>\$ 77,223</u> | <u>\$ 80,530</u> |

See the Independent Auditor's report