

**MT. WERNER WATER AND
SANITATION DISTRICT**

Financial Statements

December 31, 2016



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MT. WERNER WATER AND SANITATION DISTRICT

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Independent Auditor's Report

Board of Directors
Mt. Werner Water and Sanitation District
Steamboat Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Mt. Werner Water and Sanitation District (the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 11, 2016. In our opinion, the summarized comparative financial 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-7 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 the 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 basic financial statements. The supplementary information consisting of the Enterprise Fund schedule of revenues, expenditures and changes in fund balance – budget and actual on pages 18-19 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Steamboat Springs, Colorado
March 23, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

The intent of management’s discussion and analysis is to provide an easy-to-read discussion of the financial condition of the Mount Werner Water and Sanitation District (the District) for the year ended December 31, 2016. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE DISTRICT’S OPERATIONS AND ECONOMIC FACTORS

The District was formed in 1965 to provide water and sanitation services for the newly developing Steamboat Ski Area and Resort; it is organized as a special district pursuant to state statute and is a political subdivision of the State of Colorado. An elected 5-member board of directors governs the District.

The District owns and operates the Fish Creek Filtration Plant and supplies potable water to its customers in the resort area of Steamboat Springs – an area of approximately four square miles which includes all properties generally south of Fish Creek and within the City limits. Through an intergovernmental agreement, the District also supplies potable water to the City of Steamboat Springs. The District’s wastewater is treated in a regional wastewater treatment facility owned by the City of Steamboat Springs. The District owns and maintains approximately 57 miles of sewer mains and 57 miles of water mains. The District and the City of Steamboat Springs hold the most senior water rights in Fish Creek, the principal raw water supply for the Fish Creek Filtration Plant. In 1996, the District doubled the capacity of the Fish Creek Reservoir, owned by the City of Steamboat Springs, to secure water storage in that facility.

District revenues come from three major sources:

- Water and sewer service charges
- Revenue from other governments and private entities
- Plant Investment Fees (“Tap Fees”)

In spite of the recent economic recession, revenue from District service charges has remained steady with negligible collection problems. Remaining open land parcels and platted lots within District boundaries indicate that the District is 69% “built-out” under current zoning regulations and that there remains substantial growth potential in the District’s customer base. Several intergovernmental agreements are in place assuring revenues for the operation and maintenance of facilities. Plant Investment Fees depend on private investment decisions on new construction. This revenue goes into the District’s capital reserves which are dedicated to funding capital improvements related to growth; they are not used to fund operations.

Personnel costs and related benefits comprise the largest operational expense.

The District is committed to providing its customers with the highest quality and most cost-effective water and wastewater services while preserving public health, protecting the environment and ensuring the utmost customer satisfaction.

The District is equally dedicated to maintaining a work environment where every employee is recognized as a fundamental part of the organization, thereby encouraging teamwork and individual contributions.

DESCRIPTION OF FINANCIAL STATEMENTS

Mount Werner Water and Sanitation District operates as a utility enterprise fund and presents its financial statements using the accrual basis of accounting used by most private-sector companies. As an enterprise fund, the District's basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. The financial statement also includes Notes that provide more detailed information of significant elements within the financial statement. The District has no component units, nor is it a component unit of any other entity.

STATEMENT OF ACTIVITIES

The following table represents the variance between the District's 2016 actual revenues and expenses and the 2016 budgeted amounts.

2016 Actual vs. 2016 Budget

| REVENUE SUMMARY | 2016 ACTUAL | 2016 BUDGET | VARIANCE Favorable (Unfavorable) |
|-------------------------------------|------------------------|------------------------|---|
| Service Charges | \$1,506,175 | \$1,452,353 | \$53,822 |
| Water/Wastewater Tap Fees | 281,891 | 260,000 | 21,891 |
| Water Filtration O & M - City Share | 276,178 | 274,418 | 1,760 |
| Interest Income | 13,326 | 9,000 | 4,326 |
| Other | 16,593 | 72,377 | (55,784) |
| Total Revenues | \$2,094,163 | \$2,068,148 | \$ 26,015 |
| EXPENDITURE SUMMARY | | | |
| Administration | \$ 580,066 | \$ 595,981 | \$ 15,915 |
| Distribution & Collection | 439,112 | 466,816 | 27,704 |
| Water Filtration | 643,696 | 663,351 | 19,655 |
| Raw Water Supply | 43,508 | 50,970 | 7,462 |
| Debt Service | 0 | 0 | 0 |
| Total Operating Costs | \$1,706,382 | \$1,777,118 | \$70,736 |
| Operating Income | \$387,781 | \$291,030 | \$96,751 |
| Total Capital Expenditures | \$1,069,324 | \$1,266,553 | \$197,229 |
| Revenue (Under) Expenditures | (\$681,543) | (\$975,523) | \$293,980 |

Revenues:

The variation between 2016 actual and 2016 budgeted revenues were primarily due to:

- Tap fees for water and wastewater were \$21,891 more than anticipated.
- Due to a dry summer and fall, service charges were \$53,822 more than budgeted.
- The Burgess Creek Water Filtration Plant was demolished resulting in a loss on disposal of asset of \$49,125. Also, meter income was less than expected due to some meter returns.

Operating Expenses:

The variation between 2016 actual and 2016 budgeted expenditures were primarily due to:

- Administration:
 - Conservation Fees were 50% less than budgeted due to less requests for rebates.
 - Legal and accounting services: 11% under budget
 - Master planning fees: 34% under budget.
- Distribution and Collection:
 - Personnel Costs were under budget 10% due to an employee leaving and training costs less than budgeted.
 - Utilities were under budget 12%
- Water Filtration:
 - Chemicals: 7% under budget because of the timing of purchase and delivery.
 - Utilities were 19% under budget

Capital Expenditures:

Capital improvements completed in 2016 were:

| | |
|--|-------------------------|
| ▪ Rollingstone Water Main Loop | \$23,931 |
| ▪ Fire Hydrant Replaced | \$15,891 |
| ▪ Alpen Glow Resurface | \$3,162 |
| ▪ Booster Station Improvements | \$16,332 |
| ▪ Thunderhead Tank Solar Telemetry | \$8,650 |
| ▪ Burgess Creek Plant Demolition | \$17,730 |
| ▪ Core Trail Interceptor Highway 40 | \$12,497 |
| ▪ Phases 1-4 Core Trail Interceptor Fetcher Pond to MH21 | \$59,492 |
| ▪ Wellfield Treatment Plant Compliance Upgrade | \$62,109 |
| ▪ Wellfield Treatment Plant Expansion | \$57,810 |
| ▪ Other Wellfield Treatment Plant Improvements | \$12,867 |
| ▪ Land and Utility Easements | \$754,931 |
| ▪ Plant Equipment | \$22,504 |
| ▪ Buildings and Improvements | \$39,651 |
| ▪ Office Remodel | \$6,991 |
| ▪ New District Vehicle | \$32,308 |
| ▪ Website Upgrade | \$4,617 |
| District Capital Improvements | \$1,151,473 |
| 2016 City Contribution | <u>\$ 82,148</u> |
| Total Capital Expenditures | \$1,069,325 |

| REVENUE SUMMARY | 2014 | 2015 | 2016 |
|-----------------------------------|--------------------|--------------------|--------------------|
| Service Charges | \$1,440,740 | \$1,419,158 | \$1,506,175 |
| Water/Wastewater Tap Fees | \$619,710 | \$349,176 | \$281,891 |
| Water Filtration O&M - City Share | \$260,714 | \$259,990 | \$276,178 |
| Interest Income | \$15,882 | \$12,908 | \$13,326 |
| Other | \$85,076 | \$70,347 | \$16,593 |
| Total Revenues | \$2,422,122 | \$2,111,579 | \$2,094,163 |

| EXPENDITURE SUMMARY | 2014 | 2015 | 2016 |
|-------------------------------------|--------------------|--------------------|--------------------|
| Administration | \$483,287 | \$533,787 | \$580,066 |
| Distribution & Collection | \$389,161 | \$412,559 | \$439,112 |
| Water Filtration | \$608,733 | \$607,405 | \$643,696 |
| Raw Water Supply | \$41,205 | \$44,683 | \$43,508 |
| Debt Service | \$0 | \$0 | 0 |
| Total Costs | \$1,522,386 | \$1,598,435 | \$1,706,382 |
| Income (Loss) | \$899,736 | \$513,144 | \$387,781 |
| Total Capital Expenditures | \$460,201 | \$1,412,078 | \$1,069,324 |
| Revenue Over (Under) Expense | \$439,634 | (\$898,934) | (\$681,543) |

NET POSITION

Condensed Statements of Net Position

| | 2014 | 2015 | 2016 |
|--|---------------------|---------------------|---------------------|
| Current Assets | \$5,194,234 | \$4,295,054 | \$3,641,163 |
| Non-Current Assets | 34,126 | 125,057 | 119,389 |
| Restricted | 40,063 | 40,083 | 40,103 |
| Capital Assets, net accum depreciation | 28,825,652 | 29,235,196 | 28,851,442 |
| Total Assets | \$34,094,075 | \$33,695,391 | \$32,652,097 |
| Current Liabilities | 156,705 | 247,390 | 220,251 |
| Long Term Liabilities | 40,063 | 40,083 | 40,103 |
| Total Liabilities | \$196,768 | \$287,473 | \$260,354 |
| Invested in Capital, Net of Debt | 28,825,652 | 29,235,196 | 28,851,442 |
| Unrestricted | 5,071,655 | 4,172,722 | 3,540,301 |
| Restricted | 0 | 0 | 0 |
| Total Net Position | \$33,897,307 | \$33,407,918 | \$32,391,743 |

CAPITAL ASSETS

At the end of 2016, the District had invested \$28,851,442 in a broad range of infrastructure including water and sewer mains, storage tanks, raw water reservoir, water filtration plant, administration facilities, vehicles, equipment, participation fees and water rights as shown in the following table.

| | 2014 | 2015 | 2016 |
|---|---------------------|---------------------|---------------------|
| Water System | \$28,230,265 | \$28,889,765 | \$28,418,238 |
| Sewer System | 15,935,039 | 16,182,060 | 16,254,049 |
| Fish Creek Reservoir | 7,472,325 | 7,472,325 | 7,472,325 |
| Land | 1,222,181 | 2,058,852 | 2,813,784 |
| Buildings and Improvements | 599,856 | 599,856 | 639,507 |
| Equipment & Vehicles | 457,223 | 511,979 | 567,147 |
| Water Rights | 52,953 | 52,953 | 52,953 |
| Less accumulated depreciation | -25,144,190 | -26,532,593 | -27,366,561 |
| | | | |
| Net Property, Plant, and Equipment | \$29,725,446 | \$29,235,197 | \$28,851,442 |

If you have questions regarding this report or need additional information, please contact:

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MT. WERNER WATER AND SANITATION DISTRICT
Statement of Net Position
December 31, 2016
(with summarized financial information as of December 31, 2015)

| | 2016 | 2015 |
|---|---------------|---------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,790,156 | \$ 3,472,010 |
| Accounts receivable | 727,895 | 684,584 |
| Accrued interest receivable | 478 | 1,845 |
| Prepaid expenses | 65,082 | 69,917 |
| Inventories | 57,552 | 66,698 |
| Total current assets | 3,641,163 | 4,295,054 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 28,851,442 | 29,235,197 |
| Restricted assets | 40,103 | 40,083 |
| Prepaid expenses | 28,242 | 31,306 |
| Deferred plant investment fees receivable | 91,147 | 93,751 |
| Total assets | 32,652,097 | 33,695,391 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 91,966 | 34,873 |
| Compensated absences liability | 9,746 | - |
| Due to other governments | 118,539 | 212,517 |
| Total current liabilities | 220,251 | 247,390 |
| Noncurrent liabilities: | | |
| Funds held in escrow | 40,103 | 40,083 |
| Total noncurrent liabilities | 40,103 | 40,083 |
| Total liabilities | 260,354 | 287,473 |
| Net Position: | | |
| Net investment in capital assets | 28,851,442 | 29,235,197 |
| Unrestricted | 3,540,301 | 4,172,721 |
| Total net position | \$ 32,391,743 | \$ 33,407,918 |

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

MT. WERNER WATER AND SANITATION 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 and sewer service charges | \$ 1,506,175 | \$ 1,419,159 |
| Water filtration plant operating and maintenance sharing | 276,178 | 259,990 |
| Other | <u>65,718</u> | <u>70,347</u> |
| Total operating revenues | <u>1,848,071</u> | <u>1,749,496</u> |
| Operating expenses: | | |
| Administration | 580,066 | 533,788 |
| Water distribution and wastewater collection | 439,113 | 412,559 |
| Water filtration | 643,695 | 607,404 |
| Raw water supply | 43,508 | 44,683 |
| Depreciation | <u>1,403,955</u> | <u>1,392,914</u> |
| Total operating expenses | <u>3,110,337</u> | <u>2,991,348</u> |
| Operating income (loss) | <u>(1,262,266)</u> | <u>(1,241,852)</u> |
| Non-operating revenues (expenses): | | |
| Interest income | <u>13,326</u> | <u>12,908</u> |
| Total non-operating revenues | <u>13,326</u> | <u>12,908</u> |
| Income (loss) before other revenues, expenses, gains and losses | <u>(1,248,940)</u> | <u>(1,228,944)</u> |
| Other revenues, expenses, gains and losses: | | |
| Plant investment fees | 281,891 | 349,175 |
| Contributions of infrastructure assets | - | 392,664 |
| Loss on disposal of capital assets | <u>(49,125)</u> | <u>(2,284)</u> |
| Other revenues, expenses, gains and losses | <u>232,766</u> | <u>739,555</u> |
| Change in net position | (1,016,174) | (489,389) |
| Net position, beginning of year | <u>33,407,917</u> | <u>33,897,307</u> |
| Net position, end of year | <u>\$ 32,391,743</u> | <u>\$ 33,407,918</u> |

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

MT. WERNER WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

| | 2016 | 2015 |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers | \$ 1,710,781 | \$ 1,842,743 |
| Cash payments to suppliers of goods or services | (581,661) | (580,982) |
| Cash payments to employees for wages and benefits | (1,040,837) | (1,039,920) |
| Net cash provided by operating activities | 88,283 | 221,841 |
| Cash flows from capital and related financing activities: | | |
| Plant investment fees collected | 284,495 | 255,424 |
| Acquisition of capital assets | (1,051,595) | (1,412,079) |
| Costs to dispose of capital assets | (17,730) | - |
| Net cash provided (used) by capital and related financing activities | (784,830) | (1,156,655) |
| Cash flows from investing activities: | | |
| Interest earnings | 14,693 | 14,307 |
| Net cash provided by investing activities | 14,693 | 14,307 |
| Net change in cash and cash equivalents | (681,854) | (920,507) |
| Cash and cash equivalents, beginning of year | 3,472,010 | 4,392,517 |
| Cash and cash equivalents, end of year | \$ 2,790,156 | \$ 3,472,010 |
| Reconciliation of operating income (loss) to net cash provided by activities: | | |
| Operating income (loss) | \$ (1,262,266) | \$ (1,241,852) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 1,403,955 | 1,392,914 |
| (Increase) decrease in: | | |
| Accounts receivable | (43,311) | (2,595) |
| Prepaid expenses | 7,899 | (26,577) |
| Inventories | 9,146 | 9,266 |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | 57,092 | 5,534 |
| Compensated absences liability | 9,746 | (10,691) |
| Due to other governments | (93,978) | 95,842 |
| Net cash provided by operating activities | \$ 88,283 | \$ 221,841 |
| Non-cash transactions: | | |
| Contributions of infrastructure assets | \$ - | \$ 392,664 |

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

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 1: Summary of Significant Accounting Policies

The Mt. Werner Water and Sanitation District (the District) was formed in 1965 to provide water and sanitation services for the then newly developing Steamboat Ski Area and Resort. The District was formed as a special district pursuant to Title 32 of Colorado Revised Statutes (CRS). The District treats and distributes water for the mountain resort area of Steamboat Springs and provides water to the City of Steamboat Springs (the City) for distribution to its customers. The District also provides the infrastructure for the collection of wastewater within the District that is treated at the City's wastewater treatment plant. The District and City share raw water storage in Fish Creek Reservoir and share ownership of the Fish Creek Filtration Plant.

The District's financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The reporting entity consists of (a) the primary government, i.e., the District, and (b) organizations for which the District is financially accountable. The District does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The District operates as an enterprise and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, short-term certificates of deposit, and highly liquid investment pool funds.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by US GAAP. 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.

Investments in the Colorado Government Liquid Trust (COLOTRUST), an external investment pool, are stated at share price which is substantially the same as fair value and are categorized as Level 1.

Accounts Receivable

Amounts due to the District from charges for services provided are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible at December 31, 2016 and 2015. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

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

Inventories

Inventories consist of meters, chemicals and supplies used in District operations and are reported at cost.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Capital Assets

The District capitalizes water and sewer infrastructure additions over \$2,000 and equipment additions over \$5,000. Such assets are recorded at historical cost if purchased or fair value if contributed to the District. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset estimated useful lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---|-------|
| Water storage, treatment and distribution systems | 10-40 |
| Sewage treatment, collection and transmission systems | 30-40 |
| Buildings and improvements | 30 |
| Vehicles, equipment and software | 5-15 |

Deferred Plant Investment Fees Receivable

The District has agreed to allow certain nonprofit organizations to defer payment for plant investment fees for up to ten years with automatic extensions to twenty years. The District's management reviews these receivables periodically to consider the collectability of the balances and has determined all amounts to be fully collectible at December 31, 2016. The District has reported these receivable balances as noncurrent in the statement of net position as the earliest amounts are due to be collected is in 2018.

Compensated Absences Liability

District employees accrue vacation and compensatory time benefits with each pay period. Employees can carryforward a certain amount of unused vacation hours at December 31 based upon the employee's length of employment with the District and unused vacation is paid to employees upon termination. Employees can carryforward no more than 20 hours of compensatory time at December 31.

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative financial information in total. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2015 from which the summarized financial information was derived.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 1: Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

Effective January 1, 2016, the District adopted the provisions of GASB Statement No. 72, "Fair Value Measurement and Application." The effect of this adoption is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, and enhancing disclosures about fair value measurements.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on debt are budgeted and recorded as expenditures.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, District management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental appropriations during 2016.

Compliance

The District did not have expenditures in excess of appropriations during 2016.

TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future 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 increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

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 the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 2: Stewardship, Compliance and Accountability (continued)

TABOR Amendment (continued)

Management believes that the District qualifies as an enterprise as defined in TABOR. Therefore, the provisions of TABOR are not applicable to the District.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

Note 3: Detailed Notes on the Fund

Deposits

The carrying amount of the District's deposits at December 31, 2016 and 2015 was \$1,819,686 and \$3,457,197, respectively and bank balances were \$1,866,086 and \$3,507,876, respectively. Of the bank balances, \$697,597 and \$878,583 at December 31, 2016 and 2015, respectively, was covered by federal deposit insurance and \$1,168,489 and \$2,629,293, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The PDPA requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral 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 equal or exceed 102% of the aggregate uninsured deposits.

Investments

At December 31, 2016 and 2015, the District had \$1,010,373 and \$54,631, respectively, invested in the Colorado Government Liquid Trust (COLOTRUST) PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. COLOTRUST PLUS+'s investment objective is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment advisor for COLOTRUST PLUS+ is Public Trust Advisors LLC (PTA), a Colorado-based investment adviser registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. The COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The COLOTRUST PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

The District's investments are subject to interest rate risk, credit risk, and concentration of credit risk. As a means of limiting its exposure to fair value losses arising from prevailing market interest rates, the District's investment policy states that the maximum maturity of any investment shall be no greater than five years, and all investments shall have a final maturity not exceeding five years from the date of purchase.

Restricted Assets

In 2011, the District entered into a Public Improvements Completion Agreement with a developer whereby the District collected \$39,873 at the time of building permit application to be held in a separate interest bearing escrow account. The escrow balance at December 31, 2016 and 2015 was \$40,103 and \$40,083, respectively.

Prepaid Expenses

The District prepaid a United States Department of Agriculture (USDA) Forest Service special use permit for Fish Creek Reservoir during 2001 of \$60,326. The permit is dated February 10, 1998 and expires in 2023. The District is recording the expense over the life of the permit. At December 31, 2016 and 2015, the District's prepaid portion of the permit fee is \$31,306 and \$34,126, respectively. Prepaid amounts not expected to be recognized in the next fiscal year are recorded as a noncurrent asset.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 3: Detailed Notes on the Fund (continued)

Capital Assets

Capital asset activity for the years ended December 31, 2016 and 2015 is summarized below:

| | December 31, 2015 Balance | Additions | Deletions | December 31, 2016 Balance |
|---|---------------------------------|---------------------|--------------------|---------------------------------|
| Non-depreciable capital assets: | | | | |
| Land, improvements and easements | \$ 2,058,853 | \$ 754,931 | \$ - | \$ 2,813,784 |
| Water rights | 52,953 | - | - | 52,953 |
| Total non-depreciable capital assets | <u>2,111,806</u> | <u>754,931</u> | <u>-</u> | <u>2,866,737</u> |
| Depreciable capital assets: | | | | |
| Water storage, treatment and distribution systems | 36,362,089 | 129,856 | (601,382) | 35,890,563 |
| Sew age treatment, collection and transmission system | 16,182,060 | 71,989 | - | 16,254,049 |
| Buildings and improvements | 599,856 | 39,651 | - | 639,507 |
| Vehicles, equipment and software | 511,979 | 55,168 | - | 567,147 |
| Total depreciable capital assets | 53,655,984 | 296,664 | (601,382) | 53,351,266 |
| Less: accumulated depreciation | <u>(26,532,593)</u> | <u>(1,403,955)</u> | <u>569,987</u> | <u>(27,366,561)</u> |
| Net depreciable capital assets | <u>27,123,391</u> | <u>(1,107,291)</u> | <u>(31,395)</u> | <u>25,984,705</u> |
| Total capital assets, net | <u>\$ 29,235,197</u> | <u>\$ (352,360)</u> | <u>\$ (31,395)</u> | <u>\$ 28,851,442</u> |
| | December 31, 2014 Balance | Additions | Deletions | December 31, 2015 Balance |
| Non-depreciable capital assets: | | | | |
| Land, improvements and easements | \$ 1,222,181 | \$ 836,672 | \$ - | \$ 2,058,853 |
| Water rights | 52,953 | - | - | 52,953 |
| Total non-depreciable capital assets | <u>1,275,134</u> | <u>836,672</u> | <u>-</u> | <u>2,111,806</u> |
| Depreciable capital assets: | | | | |
| Water storage, treatment and distribution systems | 35,702,590 | 663,144 | (3,645) | 36,362,089 |
| Sew age treatment, collection and transmission system | 15,935,039 | 250,171 | (3,150) | 16,182,060 |
| Buildings and improvements | 599,856 | - | - | 599,856 |
| Vehicles, equipment and software | 457,223 | 54,756 | - | 511,979 |
| Total depreciable capital assets | 52,694,708 | 968,071 | (6,795) | 53,655,984 |
| Less: accumulated depreciation | <u>(25,144,190)</u> | <u>(1,392,914)</u> | <u>4,511</u> | <u>(26,532,593)</u> |
| Net depreciable capital assets | <u>27,550,518</u> | <u>(424,843)</u> | <u>(2,284)</u> | <u>27,123,391</u> |
| Total capital assets, net | <u>\$ 28,825,652</u> | <u>\$ 411,829</u> | <u>\$ (2,284)</u> | <u>\$ 29,235,197</u> |

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 4: Other Information

Intergovernmental Agreements

Water Treatment Plant Agreement

In November 2005, the District and City entered into an agreement for the treatment and disposal of sewage in the Steamboat Springs region. Per terms of the agreement, the District collects service charges from its residential and commercial customers for wastewater treatment and passes these payments through to the City. Wastewater treatment receipts are not recognized as revenues by the District. Additionally, the City does not charge the District for operating expenses attributable to the treatment of wastewater.

Agreement to Expand Fish Creek Reservoir

In July 1994, the District and City entered into an agreement to enlarge the storage capacity of the Fish Creek Reservoir. The agreement required the District to pay all construction costs of the enlargement project. The District funded the project with a \$4,630,000 loan from the Colorado Water Resources and Power Development Authority (CWRPDA) and the District's reserve funds.

In 2002, the agreement was amended allowing the City, at its option annually, to reserve and receive 27.698% of the water filling under the enlargement, by paying \$175,000 to the District. The City's allotment percentage of the annual amount of water filling in the enlargement is fixed in perpetuity to be 2.518% multiplied by the number of years the City made the option payment to the District. The City made the option payment each year from 2000 through 2011 resulting in a perpetual reserved allotment of 27.698% of the annual fill in the enlargement pool.

Filtration Bay Lease of Stand-By Capacity

In March 2008, the District entered into a lease agreement with the City to lease the 50% of the actual production capacity of two filter bays owned by the City. The lease began upon completion of the construction of the filter bays in June 2007. The lease term is for ten years unless terminated sooner by either party with two years notification after a minimum of five years. The lease amount is based upon 50% of the cost of the two filter bays. The District incurred lease expenses of \$52,200 and \$53,532, respectively, for the years ended December 31, 2016 and 2015.

Stagecoach Reservoir Storage Agreement

The District entered into an agreement with the Upper Yampa Water Conservancy District (UYWCD) on April 4, 1988 to purchase annually on a "take or pay basis" 200 acre feet of storage water in Stagecoach Reservoir at a price of \$35.00 per acre foot for a term of thirty years. At the end of the thirty year period the District has the continuing right for the life of Stagecoach Reservoir to purchase annually the 200 acre feet of storage at a price per acre foot based upon UYWCD's costs of operating, repairing, renovating and maintaining Stagecoach Reservoir.

Yamcolo Reservoir Storage Agreements

The District entered into an extension and amendment agreement with UYWCD effective May 19, 2011 for 300 acre feet of storage water in the Yamcolo Reservoir for thirty years terminating July 15, 2041. The initial purchase price for the storage water is \$68.38 per acre foot and is subject to an annual CPI increase. The District paid \$77.24 per acre foot of storage water for the year ended December 31, 2016.

In 2011, the District entered into a Water Purchase Agreement with the Steamboat Ski & Resort Corporation to provide for the sale of up to 125 acre feet of raw untreated water per year from the 300 acre feet in Yamcolo Reservoir purchased from UYWCD. The purchase price for the storage water is equal to that paid by the District in its contract with UYWCD. The agreement terminates on July 15, 2041 and the amount of acre feet of storage water available to Ski Corp is subject to the amount of acre feet stored in Yamcolo Reservoir under the UYWCD agreement.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of December 31, 2015 and for the year then ended)

Note 4: Other Information (continued)

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; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Retirement Plan

All employees can participate in a Simplified Employee Pension Individual Retirement Account (SEP-IRA) plan after a three-month probationary period. The District contributes 6% of employees' wages to the plan and the SEP-IRA accounts are self-directed and managed by the employees. All employees are fully vested immediately. District contributions to the SEP-IRA accounts were \$42,219 and \$43,734 for the years ended December 31, 2016 and 2015, respectively.

Contingencies

Reclassification of Water Source

In May 2016, the District received notification from the Colorado Department of Public Health and Environment (CDPHE) that some of the District's infiltration galleries have been reclassified to ground water under the direct influence of surface water (GWUDI). CDPHE guidelines require the District to provide adequate surface water treatment for the GWUDI within eighteen months of receiving the notification.

Prepaid Plant Investment Fees

Many years ago, the District received both water and sewer plant investment fees from 10 vacant lots and sewer plant investment fees from 3 vacant lots within the District's boundaries. The District's policy is to honor the prepaid fees and collect the City's current wastewater treatment fee less an indexed amount that the District earned on the original collection. The District has not recorded a liability for these amounts due to uncertainty of the timing of the future transactions.

Subsequent Events

The District has evaluated subsequent events through February 28, 2017, the date these financial statements were available to be issued.

MT. WERNER WATER AND SANITATION DISTRICT
Enterprise Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2016

| | Original and Final Budget | Actual | Variance |
|---|---------------------------------|------------------|---------------|
| Operating revenues: | | | |
| Service charges: | | | |
| Water | \$ 1,160,073 | \$ 1,215,291 | \$ 55,218 |
| Wastewater collection | 292,280 | 290,884 | (1,396) |
| Water filtration plant operating and maintenance sharing | 274,418 | 276,178 | 1,760 |
| Other | 52,377 | 65,718 | 13,341 |
| Total operating revenues | <u>1,779,148</u> | <u>1,848,071</u> | <u>68,923</u> |
| Operating expenditures: | | | |
| Administration: | | | |
| Wages and benefits | 409,481 | 408,337 | 1,144 |
| Professional fees | 75,000 | 76,460 | (1,460) |
| Office and support systems | 46,350 | 36,239 | 10,111 |
| Insurance | 24,150 | 23,350 | 800 |
| Water conservation | 16,300 | 8,125 | 8,175 |
| Master planning | 6,500 | 2,200 | 4,300 |
| Engineering | 3,700 | 2,519 | 1,181 |
| Other | 14,500 | 22,836 | (8,336) |
| Total administration | <u>595,981</u> | <u>580,066</u> | <u>15,915</u> |
| Water distribution and wastewater collection: | | | |
| Wages and benefits | 269,684 | 245,519 | 24,165 |
| Utilities | 39,237 | 34,660 | 4,577 |
| Operating and maintenance | 154,900 | 158,083 | (3,183) |
| Other | 3,000 | 851 | 2,149 |
| Total water distribution and wastewater collection | <u>466,821</u> | <u>439,113</u> | <u>27,708</u> |
| Water filtration: | | | |
| Wages and benefits | 396,309 | 396,727 | (418) |
| Utilities | 70,381 | 57,086 | 13,295 |
| Chemicals | 90,000 | 93,286 | (3,286) |
| Operating and maintenance | 43,226 | 31,871 | 11,355 |
| Filter bay lease | 52,200 | 52,200 | - |
| Other | 11,235 | 12,525 | (1,290) |
| Total water filtration | <u>663,351</u> | <u>643,695</u> | <u>19,656</u> |

MT. WERNER WATER AND SANITATION DISTRICT
Enterprise Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2016

| | Original and Final Budget | Actual | Variance |
|--|---------------------------------|----------------------|-------------------|
| Raw water supply: | | | |
| Water purchases | 28,890 | 30,172 | (1,282) |
| Stream gauges | 5,400 | 5,560 | (160) |
| Watershed protection | 5,200 | 2,870 | 2,330 |
| Wellfield monitoring and protection | 11,480 | 4,906 | 6,574 |
| Total raw water supply | <u>50,970</u> | <u>43,508</u> | <u>7,462</u> |
| Total operating expenditures | <u>1,777,123</u> | <u>1,706,382</u> | <u>70,741</u> |
| Operating income | <u>2,025</u> | <u>141,689</u> | <u>139,664</u> |
| Non-operating revenues (expenditures): | | | |
| Water plant investment fees | 175,000 | 191,576 | 16,576 |
| Wastewater plant investment fees | 85,000 | 90,315 | 5,315 |
| New meter fees | 20,000 | - | (20,000) |
| Interest income | 9,000 | 13,326 | 4,326 |
| Capital outlay | <u>(1,266,553)</u> | <u>(1,051,595)</u> | <u>214,958</u> |
| Total non-operating revenues (expenditures) | <u>(977,553)</u> | <u>(756,378)</u> | <u>221,175</u> |
| Net income (loss) - budgetary basis | <u>\$ (975,528)</u> | <u>(614,689)</u> | <u>\$ 360,839</u> |
| Adjustments to US GAAP basis: | | | |
| Capitalized expenditures | | 1,051,595 | |
| Loss on disposal of capital assets | | (49,125) | |
| Depreciation | | <u>(1,403,955)</u> | |
| Change in net position - US GAAP basis | | (1,016,174) | |
| Fund balance, beginning of year | | <u>33,897,306</u> | |
| Fund balance, end of year | | <u>\$ 32,881,132</u> | |