

AUDITED FINANCIAL STATEMENTS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
WESTCLIFFE, COLORADO
December 31, 2016 and 2015



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July 6, 2017

Board of Directors
Round Mountain Water and Sanitation District
Westcliffe, Colorado

Independent Auditor's Report

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through viii 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 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 opinions on the financial statements that collectively comprise the Round Mountain Water & Sanitation District's basic financial statements. The schedules of budgetary comparisons, water operating expenses, sewage operating expenses and general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of budgetary comparisons, water operating expenses, sewage operating expenses, and general and administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Garrett, Ross & DeNardo, Inc.

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014

The intent of the management's discussion and analysis is to provide highlights of the Round Mountain Water and Sanitation District's financial activities and performance for the fiscal year ended December 31, 2016. Readers are encouraged to examine the information presented here in conjunction with the accompanying financial statements.

SERVICES AND ACTIVITIES

The Round Mountain Water and Sanitation District is a "Colorado Special District", being a unit of local government and political subdivision organized and acting pursuant to the provisions of Title 32, Colorado Revised Statutes. The District functions as an "Enterprise", a government-owned business utility providing water and wastewater services to most of the developed areas within the Towns of Westcliffe and Silver Cliff, Colorado. The District operates under the jurisdiction and control of a local Board of Directors whose five members are elected by the voters of the District.

The District's water activities include the acquisition, production (pumping), treatment, storage, delivery, and sale of water. The District's sewer activities include the collection, transmission, treatment, and disposal of wastewater. The District serves only its own customers, and neither sells to nor purchases from any other public water or wastewater service provider.

FINANCIAL POLICIES, CONTROLS, AND ACCOUNTING

The financial policies and controls of the District include an internal annual budget in accordance with the Colorado Local Government Budget Law, an accounting system in adherence to the Colorado Local Government Uniform Accounting Law reflecting the guidelines and practices recommended in the Colorado Financial Management Manual, and an external audit of its financial statements in compliance with the Colorado Local Government Audit Law. The Board has the exclusive right to determine its own rates and charges for services provided.

The District utilizes the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) for governmental agencies. Under such method, revenues are recognized when they are earned. Expenses are recognized as they are incurred. The transactions of the District are all reflected in one fund, namely a proprietary fund, for accounting purposes. A proprietary fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs, including amortization and depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The District's financial statements included in this annual report are those of a special purpose government engaged only in a business-type activity. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The following basic financial statements are included:

- The **statement of net position** presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities and deferred inflows with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

- The **statement of revenues, expenses and changes in net position** presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. – earned, but unused, vacation leave). The statement reports the District's operating and non-operating revenue by source along with operating and non-operating expenses and capital contributions.
- The **statement of cash flows** reports the District's cash flows from operating activities, investing, capital and non-capital activities.
- The **notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes, the basic report also presents certain **supplementary information** concerning the District's budgetary comparisons. The District provides much of this supplementary information at the request, and for the benefit, of the registered owners of the District's revenue bonds, and of the bank/lessor of property under lease/purchase by the District.

Statement of Net Position

	2016	2015	2014
Assets			
Current Assets	\$ 558,967	\$ 563,737	\$ 517,718
Capital assets, net of accumulated depreciation	3,621,224	3,788,146	3,751,906
Total Assets	<u>\$ 4,180,191</u>	<u>\$ 4,351,883</u>	<u>\$ 4,269,624</u>
Liabilities			
Current liabilities	\$ 74,302	\$ 87,687	\$ 37,866
Noncurrent liabilities	662,573	720,506	635,527
Total Liabilities	<u>\$ 736,875</u>	<u>\$ 808,193</u>	<u>\$ 673,393</u>
 Deferred Inflows of Resources	 <u>\$ 43,892</u>	 <u>\$ 43,901</u>	 <u>\$ 46,925</u>
 Net Position			
Capital assets, net of related debt	\$ 2,900,704	\$ 3,011,501	\$ 3,090,162
Restricted for emergency	18,000	16,700	-
Unrestricted	480,720	471,588	459,144
Total Net Position	<u>\$ 3,399,424</u>	<u>\$ 3,499,789</u>	<u>\$ 3,549,306</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014**

Statement of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues			
Operating revenues:			
Water sales	\$ 318,030	\$ 297,470	\$ 291,267
Sewer charges	208,878	203,926	199,111
Tap connection fees -- water	5,150	1,300	2,600
Tap connection fees – sewer	4,900	2,400	1,600
Other (rents, penalties, misc. charges)	6,345	7,789	6,627
Non-operating revenues:			
General property tax	40,541	47,170	44,220
Specific ownership tax	5,516	6,101	5,522
Gain (loss) on disposal of assets	1,250	-	4,000
State grants	798	1,250	-
Interest income	1,695	1,661	1,578
Total Revenues	<u>593,103</u>	<u>569,067</u>	<u>556,525</u>
Expenses			
Operating expenses:			
Water operations	145,638	132,308	143,856
Sewer operations	90,839	76,899	103,607
Admin & general	215,903	210,161	211,992
Water system depreciation	113,137	96,172	99,262
Sewer system depreciation	105,175	64,802	68,067
Admin & general depreciation	8,249	6,102	6,812
Non-operating expenses:			
County Treasurer's collection fees	2,018	2,347	2,187
Interest expense	39,402	41,093	44,011
Total expenses	<u>720,361</u>	<u>629,884</u>	<u>679,794</u>
Income (loss) before contributions	(127,258)	(60,817)	(123,269)
Capital contributions, net of rebates	26,893	11,300	13,300
Change in net income	<u>(100,365)</u>	<u>(49,517)</u>	<u>(109,969)</u>
Net position -- beginning of year	3,499,789	3,549,306	3,659,275
Net position -- end of year	<u>\$ 3,399,424</u>	<u>\$ 3,499,789</u>	<u>\$ 3,549,306</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014**

Actual vs. Budget

	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
REVENUE			
Water revenue	\$ 318,030	\$ 294,750	\$ 23,280
Sewage revenue	208,878	202,250	6,628
Connection charges (20% of tap fee)	10,050	4,200	5,850
System Development Fees:			
Plant investment charges (80% of tap fee)	9,193	16,800	(7,607)
Interest income	1,695	1,200	495
Property and SO tax collections	46,057	49,201	(3,144)
Grant income	798	-	798
Gain on sale of assets	-	-	-
Other income	6,345	3,600	2,745
TOTAL REVENUES	601,046	572,001	29,045
EXPENDITURES			
Water system	145,192	117,066	(28,126)
Sewage system	90,541	108,844	18,303
Administration	215,088	237,381	22,293
Treasurer's collection fees	2,018	2,300	282
Interest expense	39,402	39,711	309
Principal payments on notes, bonds & capital lease	26,216	27,746	1,530
Capital outlay	59,639	67,000	7,361
TOTAL EXPENDITURES	578,096	600,048	21,952
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES (BUDGETARY BASIS)	\$ 22,950	\$ (28,047)	\$ 50,997

MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014

HIGHLIGHTS OF THE STATEMENT OF NET POSITION

Current assets (\$558,967 in 2016) consist of cash, accounts receivable, property tax receivable, supply inventory, and prepaid insurance. This figure is \$4,770 less than in 2015. The decrease in current assets is mostly due to less cash reserves and a decrease in prepaid expenses as compared to the prior year.

The **capital assets** (net of accumulated depreciation) figure consists of the District's land, easements, water rights and raw water storage space, along with the depreciated value of its buildings, wells, pump and lift stations, water transmission and distribution system, sewer collection and transmission system, storage tanks (for potable water), water and sewer treatment plants, machinery and equipment. The decrease from 2015 to 2016 is \$166,922 – being the 2016 net capital improvements of \$59,639 less the 2016 depreciation expense of \$226,561.

Capital projects and improvements during 2016 consisted of the following:

• Water wells, pumping and treatment improvements	\$ 14,000
• Water transmission and distribution	\$ 12,631
• Sewer collection and transmission	\$ 6,204
• Sewer treatment plant	\$ -
• Machinery, equipment, office equipment	\$ 26,804

Current liabilities include accounts payable, accrued interest, current maturities of revenue bond, capital lease and other obligations payable, and the current portion of accrued compensated absences.

The \$13,385 decrease in current liabilities is primarily due to the decrease in accounts payable and the customer deposits.

Noncurrent liabilities (\$662,573) at 12-31-16 are as follows:

- \$515,154 balance payable (net of \$25,968 current maturities) on a capital lease secured by the Johnson Place ranch. See footnotes, pages 12-13.
- \$62,749 balance payable (net of \$3,755 current maturities) on a note payable with DOLA used for assistance in drilling a new water supply well. See footnotes, pages 13.
- \$84,670 balance payable (net of \$28,224 current maturities) on other obligations for water tank renovations. See footnotes, page 14.

Prior to the implementation of the State Engineer's 1973 and 1996 Groundwater "Use Rules" and Regulations, Round Mountain's five wells were exempt from the State's Surface Water Priority System (the River Call). When that exemption was removed by the "Use Rules", Round Mountain's wells were essentially shut down. Use of those wells has been legally restored, because water rights from the Johnson Place are now used by Water Court decree to replace (augment) depletions from those wells.

Overall, noncurrent liabilities decreased \$57,933 from 2015 to 2016. This is due to the payment of principal payments on the notes.

The District's **total net position** at the close of the 2016 fiscal year was \$3,399,424, a decrease of \$100,365. Of this amount, \$498,720 (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors. The capital assets themselves are needed to provide services and are not available for future spending or for liquidating liabilities.

**MANAGEMENT’S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014**

HIGHLIGHTS OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The revenue and expense portions of this statement basically represent the usual and ordinary financial activities of the District. Capital contributions (tap fees, developer grants, etc.) are much more variable from year to year.

Revenues – While some revenue accounts showed increases from 2015 to 2016, others showed decreases. The following are partial, but significant features of the overall \$30,418 increase in combined operating revenue:

- Service charges and bulk water sales increased \$ 31,862
- Other operating income down (1,444)

Expenses – Combined operating expenses increased by \$92,497 from 2015 to 2016. Large variance between the two years were within the expenses related to depreciation, operating supplies, purchased services, directors’ fees and meeting expenses, office supplies, utilities, and salary and wages.

Capital Contributions – Consisted of the following and are self-explanatory.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
System development / plant investment fees (80% of each tap fee, less rebates to developers)	\$ 17,700	\$ 11,300	\$ 13,300
Facilities built by developers and turned over to the District for operation and maintenance	\$ 9,193	\$ -	\$ -

Capital contributions, particularly the plant investment portions of the tap fees, are historically used for capital projects, not operations and maintenance. The reverse is generally true for service charges although, in recent years, service fees have been used to subsidize growth-related capital improvements.

THE BUDGET

As required by law, the District formally adopts an operating budget and appropriating resolution each year. The District also uses formal budget accounting, which differs in some respects from GAAP accounting, as a management control for its “enterprise” operations. The reader will find a description of the differences between the two reporting methods in the **Notes to Financial Statements** of the basic report (page 10). The reader will also find on page 19 of the basic report, the reconciliation from the budgetary to the GAAP basis of accounting.

By using the financial figures “as adjusted to the budgetary basis,” a comparison can be made between the actual revenue and expense and the budgeted revenue and expense for a particular year. That comparison is found on page iv. The following is an overview highlighting the differences between actual and budget.

HIGHLIGHTS OF THE ACTUAL VS. BUDGET

Water and sewer revenues were \$29,908 over budget.

Tap connection charges and capital contributions (the plant investment portion of the tap fee, and capital grants by developers) were under budget by a combined \$7,607. The District had budgeted selling 2 new taps, and 3 water and sewer tap combinations were purchased in 2016. **Capital expenditures** were under budget by \$7,361.

Earnings on deposits and investments were \$495 over budget, a result of no changes in interest rates, but the District had an increase in cash invested during the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014**

HIGHLIGHTS OF THE ACTUAL VS. BUDGET (Continued)

Water and sewer system expenses were over budget by \$9,823. Administration costs were under budget by \$22,293.

The actual vs. budget accounting reflects a favorable \$50,997 excess of revenue over expense, the budget assumed less water and sewer revenue than actual. Total expenditures were under the \$600,048 budget appropriation by \$21,952.

OTHER FINANCIAL HIGHLIGHTS

Tap fees include both a connection charge and a plant investment fee. These were increased 12.5% January 1, 2006. Tap fees, the only revenue taken in specifically for capital improvements, are still not sufficient for that purpose as growth continues to be subsidized by established customers and taxpayers. **Service charges** were also increased by 4.0% in 2006.

The 2008 property tax levy was 2.346 mills applied to a 2007 assessed valuation of \$17,045,010.
The 2009 property tax levy was 2.499 mills applied to a 2008 assessed valuation of \$17,009,940.
The 2010 property tax levy was 2.499 mills applied to a 2009 assessed valuation of \$17,989,670.
The 2011 property tax levy was 2.499 mills applied to a 2010 assessed valuation of \$17,655,120.
The 2012 property tax levy was 2.499 mills applied to a 2011 assessed valuation of \$17,631,320.
The 2013 property tax levy was 2.499 mills applied to a 2012 assessed valuation of \$17,418,010.
The 2014 property tax levy was 2.499 mills applied to a 2013 assessed valuation of \$17,743,940.
The 2015 property tax levy was 2.672 mills applied to a 2014 assessed valuation of \$17,560,290
The 2016 property tax levy will be 2.499 mills applied to a 2015 assessed valuation of \$17,567,430

*A temporary tax credit of .2 mills will be applied to correct error in 2014.

The 2017 property tax levy will be 2.499 mills applied to a 2016 assessed valuation of \$17,563,950

Tax Rate Error: It was determined during 2015 that an error had been made when the 2015 tax levy was established. When establishing the 2016 budget the district made provisions for rebating the taxes inappropriately collected along with 10% penalty to the district's property owners.

Tap fee rebates are another long-term obligation of the District, but do not constitute debt. By contractual agreement, the District will rebate a portion of certain tap fees back to a developer who has invested in the District infrastructure supporting those taps. Rebates are paid only upon the receipt of tap fees and no annual minimum payments are required. All such agreements expire after ten years.

WHAT'S IN THE FUTURE?

Home and property sales within the District saw an increase in activity during 2016, with many vacant homes and homes that had been listed for sale for some time being sold. Several property owners have contacted the District regarding construction of homes on lots where water and sewer permits had been previously purchased years previously. It is anticipated that several of these properties will be built on in 2017.

As the inventory of these properties with previously purchased connections is reduced it is anticipated that the District will see increasing demand for the purchase of new connection permits and in fact the District has seen a number of requests for availability of service in areas where these permits had not been previously obtained.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016, 2015 and 2014**

WHAT'S IN THE FUTURE? (Continued)

In 2016 the District budgeted to perform a Preliminary Engineering Report for needs associated with the existing 40-year-old lagoon system and groundwater infiltration disposal system. Due to problems associated with the groundwater disposal system the Colorado Department of Health renewed the district's NPDES and included a compliance schedule for improving or replacing the treatment system and associated effluent disposal system. The District obtained a planning grant from USDA Rural Development and rolled it's existing planning efforts into the USDA funded planning grant. Based on the earlier work the District was preparing with USDA's approval to begin the PER process based on a surface water discharge to Grape Creek. During the first week of December the District was informed that a surface water discharge to Grape Creek would not be allowed without phosphorus removal.

It is anticipated that the earliest construction of a new wastewater treatment and effluent discharge system will be delayed until spring of 2018, due to the planning delays and short construction season. This delay is a result of the addition of phosphorus removal which was not included in the preliminary effluent limits the district received from CDPHE earlier in the year.

The 2017 budget includes the purchase of a trailer mounted sewer jet-rodding machine to allow for the cleaning of sanitary sewers within the District's service. This will be the first time the District will have an in-house ability to clean lines and respond to blockages.

The Town of Westcliffe is planning a downtown improvement project for summer of 2017 and the District is planning on replacing or improving water meters, meter pits and service lines as needed. Additionally, we will be excavating water main valves in the work area previously identified as having problems, repairing or replacing as needed. The District will be using flowable fill in those work areas to reduce the possibility of street settling under the new paving.

The Board has decided to seek finalization of the water right's acquisition at the Johnson Ranch property. Approximately half of the property has not gone through the formal "Dry-Up" process. We will not be allowing the renter of the property to irrigate the property and hope to have the State Water Engineer formalize the court decree during the fall of 2017. This will allow the District to pursue the sale of the property with proceeds being applied to the lease-purchase agreement. However, much depends on the late summer precipitation patterns.

The District's primary well called the Smith Well or alternatively the Hermit Road Well has had its usable capacity decreased over the years to a point where it can reliably deliver about half of the flow it's water decrees allow. It is currently expected that the District will seek to re-drill it in 2018 or 2019 returning it to its original capacity. Improvements will also be made to disinfection systems to bring the well up to current standards.

The District will also be reviewing its rate setting process in 2017. The wastewater system upgrades will likely require increases in wastewater rates to repay the needed loans to fund the construction.

REQUESTS FOR INFORMATION

If you have questions, please contact the District Manager, Round Mountain Water and Sanitation District, P. O. Box 86; Westcliffe, Colorado 81252-0086.

Basic Financial Statements

STATEMENTS OF NET POSITION
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and equivalents	\$ 390,829	\$ 412,475
Receivables		
Accounts receivable	58,921	44,849
Property tax	43,892	43,901
Interest	21	21
Inventories	48,163	44,565
Prepaid expenses	17,141	17,926
Total Current Assets	<u>558,967</u>	<u>563,737</u>
Noncurrent Assets		
Capital assets, net of accumulated depreciation	<u>3,621,224</u>	<u>3,788,146</u>
Total Assets	<u>\$ 4,180,191</u>	<u>\$ 4,351,883</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 7,142	\$ 19,539
Accrued interest	3,222	3,377
Accrued compensated absences	5,991	4,432
Customer deposits	-	4,200
Note payable - current maturities	3,755	3,576
Capital leases	25,968	24,339
Other obligations	28,224	28,224
Total Current Liabilities	<u>74,302</u>	<u>87,687</u>
Noncurrent Liabilities		
Note payable	62,749	66,504
Capital leases	515,154	541,108
Other obligations	84,670	112,894
Total Noncurrent Liabilities	<u>662,573</u>	<u>720,506</u>
Total Liabilities	<u>736,875</u>	<u>808,193</u>
Deferred Inflows of Resources		
Unavailable revenue - property tax	<u>43,892</u>	<u>43,901</u>
Net Position		
Invested in capital assets, net of related debt	2,900,704	3,011,501
Restricted for emergency	18,000	16,700
Unrestricted	480,720	471,588
Total Net Position	<u>\$ 3,399,424</u>	<u>\$ 3,499,789</u>

The accompanying notes to financial statements are in integral part of this statement.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water charges	\$ 318,030	\$ 297,470
Sewage charges	208,878	203,926
Tap connection fees	10,050	3,700
Other operating income	<u>6,345</u>	<u>7,789</u>
Total Operating Revenues	<u>543,303</u>	<u>512,885</u>
Operating Expenses		
Water operating expenses		
Source of supply	104,665	96,729
Water treatment	31,535	28,090
Transmission and distribution	122,575	103,661
Sewage operating expenses		
Collection and transmission	102,423	82,967
Sewage treatment	93,591	58,734
Administrative and general	<u>224,152</u>	<u>216,263</u>
Total Operating Expenses	<u>678,941</u>	<u>586,444</u>
Net Operating Income (Loss)	<u>(135,638)</u>	<u>(73,559)</u>
Nonoperating Revenue (Expenses)		
General property tax	40,541	47,170
Specific ownership tax	5,516	6,101
Interest income	1,695	1,661
State grants	798	1,250
Gain (loss) on disposal of assets	1,250	-
Interest expense	(39,402)	(41,093)
Treasurer's collection fees	<u>(2,018)</u>	<u>(2,347)</u>
Total Nonoperating Revenues (Expenses)	<u>8,380</u>	<u>12,742</u>
Income (Loss) Before Capital Contributions	<u>(127,258)</u>	<u>(60,817)</u>
Capital Contributions		
System development fees	17,700	11,300
Capital grants	<u>9,193</u>	<u>-</u>
Total Capital Contributions	<u>26,893</u>	<u>11,300</u>
Net Income (Loss)	<u>(100,365)</u>	<u>(49,517)</u>
Total Net Position - Beginning	<u>3,499,789</u>	<u>3,549,306</u>
Total Net Position - Ending	<u>\$ 3,399,424</u>	<u>\$ 3,499,789</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENTS OF CASH FLOWS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 525,031	\$ 515,927
Cash payments to suppliers for goods and services	(270,313)	(212,954)
Cash payments to employees for services	<u>(195,718)</u>	<u>(193,760)</u>
Net Cash Provided by Operating Activities	<u>59,000</u>	<u>109,213</u>
Cash Flows From Noncapital Financing Activities		
Cash received from property tax	46,057	53,271
Cash paid for treasurer's fees	<u>(2,018)</u>	<u>(2,347)</u>
Net Cash Provided by Noncapital Financing Activities	<u>44,039</u>	<u>50,924</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(59,639)	(62,198)
Capital grant received	9,991	1,250
Proceeds from sale of fixed assets	1,250	-
Principal paid on short-term/long term notes	(3,576)	(3,405)
Principal paid on bond and capital lease payable	(24,325)	(22,812)
Principal paid on other obligations	(28,224)	-
Interest paid on short-term note and long term debt	(39,557)	(41,239)
System development fees collected - net of rebates	<u>17,700</u>	<u>11,300</u>
Net Cash Used by Capital and Related Financing Activities	<u>(126,380)</u>	<u>(117,104)</u>
Cash Flows From Investing Activities		
Interest income	<u>1,695</u>	<u>1,661</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,646)	44,694
Cash and Cash Equivalents - Beginning	<u>412,475</u>	<u>367,781</u>
Cash and Cash Equivalents - Ending	<u>\$ 390,829</u>	<u>\$ 412,475</u>
 <u>Noncash Capital and Related Financing Activities</u>		
Acquisition of capital assets financed by other obligations	<u>\$ -</u>	<u>\$ 141,118</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENTS OF CASH FLOWS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income (loss)	\$ (135,638)	\$ (73,559)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	226,561	167,076
(Increase) decrease in:		
Accounts receivable	(14,072)	(1,158)
Inventory	(3,598)	(3,939)
Prepaid expense	785	748
Increase (decrease) in:		
Accounts payable	(12,397)	15,463
Compensated absences	1,559	382
Customer deposits	(4,200)	4,200
	<u>\$ 59,000</u>	<u>\$ 109,213</u>
Net Cash Provided by Operations		

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

NOTE A - Summary of Significant Accounting Policies

Reporting Entity

The Round Mountain Water and Sanitation District (District) is organized under the laws of the State of Colorado. It operates under the jurisdiction of a local board of directors whose members are elected by the voters of the District.

The District (the primary government) presents its financial statements in accordance with generally accepted accounting principles, as they apply to governmental units. The financial statements of the District consist only of its sole enterprise fund for water and sewer services. The District has no other funds or account groups.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are reported on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. Capital grant funding represents amounts received or paid on behalf of the District for capital asset acquisition or construction of additions to the utility plant in service.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The primary source of revenue is user charges for water and sewer services. Operating expenses are reported in functional categories for source of supply, water treatment, transmission and distribution, collection and transmission, sewage treatment and administrative expenses and include depreciation on capital assets. Other revenues or expenses not meeting this definition are treated as nonoperating revenues or expenses. The principal nonoperating revenues are property and specific ownership taxes and interest income. The principal nonoperating expenses of the District include interest expense and treasurer's fees.

All assets and liabilities, both current and noncurrent, are included in the statement of net assets of proprietary funds.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Equivalents

The statement of cash flows focuses on the change in cash and cash equivalents during the period. Cash equivalents are short-term, highly liquid investments that are quickly converted to known cash amounts and that have maturities of three months or less so as to minimize the risk of value changes.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

NOTE A - Summary of Significant Accounting Policies (Continued)

Receivables

Accounts receivable is reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Inventory at December 31, 2016 and 2015 is stated at the lower of cost or market on the first-in, first out basis and is based on physical inventory taken at December 31.

Prepaid Expenses

Payments made by the District in the current year to provide services occurring in the subsequent year.

Capital Assets

Land, water rights and water storage are stated at cost and are not depreciated. All other components of the utility plant in service are stated at cost and depreciated using straight-line depreciation based upon the following useful lives:

Source of supply plant	5 - 25 years
Water transmission and distribution system	10 - 40 years
Sewage treatment plant	10 - 40 years
Sewage collection and transmission system	10 - 40 years
General equipment	5 - 10 years

Accounts Payable

Accounts payable represent obligations due to vendors for goods delivered or services rendered prior to December 31.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have an item that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometime report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item, property taxes. This item is deferred and recognized as an inflow of resources in the period that the amounts becomes available.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
 December 31, 2016 and 2015

NOTE A - Summary of Significant Accounting Policies (Continued)

Compensated Absences

Accumulated compensated absences pay is accrued and recorded as an expense in the period earned.

The District has in force both a vacation and sick leave policy which apply to all employees. The policy was changed effective December 2016. Vacation leave is earned on a monthly basis. The amount of vacation leave varies between ten and fifteen days per year depending upon the number of years of continuous service provided by the employee. The sick leave policy provides for six days per year for full time employees. However, sick leave does not vest. The Employees are allowed to accumulate up to four weeks total between vacation and sick time. Any unused, vested vacation time will be paid to the employee upon termination at their current pay rate.

Accrued compensated absences at December 31 were as follows:

	<u>2016</u>	<u>2015</u>
Current Portion	\$ 5,991	\$ 4,432
Long-term Portion	-	-
Total	<u>\$ 5,991</u>	<u>\$ 4,432</u>

The current portion of the accumulated vacation pay is that portion which is expected to be used within the next year.

System Development Fees

The District charges fees to join the utility system. The basic connection charge (tap fee) is currently \$10,500. The increase was effective April 1, 2013 up from \$9,000. The basic connection charge (tap fee) is currently \$4,000 for a sewer tap and \$6,500 for a water tap. Of the total tap fee, 80% is recorded as contributed capital - system development fees and 20% is recorded as tap connection fees. For the years ended December 31, 2016 and 2015, the additions to contributed capital - system development fees, net of rebates were \$17,700 and \$11,300, respectively.

Interest

Interest income on investments is recognized in the period it is earned.

Property Taxes

The District is responsible for assessing, collecting and distributing property taxes in accordance with enabling state legislation. Property taxes become a lien on the first day of the levy year and may be paid in two equal installments before the last day of February and the 15th day of June of in full before the last day of April.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Available means due or past due and receivable within the current period and collected no longer than 60 days after December 31.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications had no effect on net position for 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

Note A - Summary of Significant Accounting Policies (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; injuries to employees; and natural disasters. The District carries commercial insurance for such risks, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks did not exceed commercial insurance coverage during 2016 or 2015.

Note B - Stewardship, Compliance and Accountability

Tax, Revenue, Spending, and Debt Limitations

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 imposes tax raising, revenue, spending, and debt limitations on local government entities within the State of Colorado. These limitations became effective for the first fiscal year beginning after December 31, 1992.

In addition to the tax raising, revenue, spending, and debt limitation provisions of TABOR, there is also a requirement that every entity to which TABOR applies must establish an "emergency reserve", to be used for declared emergencies only, each entity shall reserve 3% or more of its fiscal year spending excluding bonded debt service. For the years ended December 31, 2016 and 2015, the District estimates its reserve requirement at \$18,000 and \$16,700, respectively.

On May 5, 1998, the District passed a referendum regarding the revenue and spending limits imposed by Article X, section 20 of the Colorado constitution. The referendum allows the District, without increasing or adding any taxes of any kind, to collect, retain, and expend all revenues and other funds collected during 1998 and thereafter.

Budget and Budgetary Data

Formal budgetary accounting is employed as a management control tool for the proprietary fund of the District. Annual operating budgets are adopted each fiscal year through passage of an annual budget resolution. The Board of the District may amend the original adopted budget during the year by passing a new resolution to reflect current needs, changing conditions, or revised estimates. The budgetary amounts presented in the accompanying financial statements/schedules reflect original and most recent amended amounts which were adopted in accordance with the appropriate provisions of state law. Encumbrance accounting is not employed as part of the budgetary process. Encumbrance accounting allows a governmental entity to account for open purchase orders (purchase orders for which the underlying goods or services have not been received before the end of an accounting period) as expenditures against the budget of that accounting period.

Differences between the budgetary reporting basis and the generally accepted accounting principles (GAAP) basis used to reflect actual revenues and expenses are described as follows.

1. Depreciation, bad debt expense and accruals for compensated absences are not recognized on the budgetary basis and are treated as expenses on the GAAP basis.
2. Debt proceeds are treated as revenue and debt repayments and capital expenditures are treated as expenses on the budgetary basis. Debt proceeds are not treated as revenue and debt repayments and capital expenses are not treated as expenses on the GAAP basis.
3. Gain on sale of assets are not recognized on the budgetary basis and are treated as nonoperating revenue on the GAAP basis.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
 December 31, 2016 and 2015

Note B - Stewardship, Compliance and Accountability (Continued)

Budget and Budgetary Data (Continued)

All unencumbered budget appropriations lapse at the end of each fiscal year.

Note C - Cash Deposits and Investments

Deposits

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

As of December 31, 2016, all of the District deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Custodial risk is the risk, that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial risk parallels Colorado statutes.

A summary of cash and deposits held at year end follows:

	<u>Carrying Amount</u>	<u>Less Than One Year</u>	<u>Less Than Five Years</u>
Deposits:			
Checking account	\$ 300,814	\$ 300,814	-
Certificate of deposit	89,765	89,765	-
Petty cash	250	250	-
Total	<u>\$ 390,829</u>	<u>\$ 390,829</u>	<u>\$ -</u>

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, bankers' acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds, and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five-year maturity unless the governing body authorizes a longer period.

Interest Rate Risk - The District's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the governing body authorizes a longer period.

Credit Risk - The District does not have a policy that would further limit its choices beyond the requirements of Colorado statutes.

The District had no such investments during the years ending December 31, 2016 or 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

Note D - Changes in Capital Assets

The following is a summary of the changes in capital assets for the year ended December 31, 2016.

	<u>Balance at</u> <u>12-31-15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12-31-16</u>
Land and land rights, etc.	\$ 1,558,734	\$ -	\$ -	\$ 1,558,734
General equipment	54,230	2,900	-	57,130
Office Furniture	68,696	-	-	68,696
Transportation equipment	65,491	23,904	5,690	83,705
Source of supply	841,853	14,000	-	855,853
Water transmission and distribution	2,326,248	12,631	-	2,338,879
Sewage treatment plant	498,183	-	-	498,183
Sewage collection and distribution	1,452,537	6,204	-	1,458,741
Totals	<u>\$ 6,865,972</u>	<u>\$ 59,639</u>	<u>\$ 5,690</u>	<u>\$ 6,919,921</u>
Less accumulated depreciation	<u>(3,077,826)</u>	<u>\$ 226,561</u>	<u>\$ 5,690</u>	<u>(3,298,697)</u>
Net Capital Assets	<u>\$ 3,788,146</u>			<u>\$ 3,621,224</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$226,561 and \$167,075, respectively. Accumulated depreciation for the years ended December 31, 2016 and 2015 was \$3,298,697 and \$3,077,826, respectively.

Note E - Property Taxes Receivable

Property taxes which have been levied for 2016 and will not be collected until 2017 have been recorded as a receivable at December 31, 2016. An offsetting entry has been recorded as a deferred inflow of resources on the statements of net position.

Note F - Capital Lease

On August 9, 2000, the District entered into a lease agreement with First State Bank of Colorado for real property and water rights. The lease requires 360 monthly payments of \$5,031.40 beginning August 9, 2000. The payments include interest at 6.50%.

	<u>December</u> <u>31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December</u> <u>31, 2016</u>	<u>Due Within</u> <u>One Year</u>
First State Bank of Colorado	<u>\$ 565,447</u>	<u>\$ -</u>	<u>\$ 24,325</u>	<u>\$ 541,122</u>	<u>\$ 25,968</u>

Assets under the capital lease totaled \$800,000 and are included in capital assets as land, rights of way and water rights.

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

Note F - Capital Lease (Continued)

Future minimum lease payments are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,968	\$ 34,408	\$ 60,376
2018	27,708	32,669	60,377
2019	29,563	30,814	60,377
2020	31,543	28,834	60,377
2021	33,656	26,721	60,377
2022-2026	205,262	96,621	301,883
2027-2030	<u>187,422</u>	<u>22,115</u>	<u>209,537</u>
Total	\$ 541,122	\$ 272,182	\$ 813,304

Obligations under capital leases have been recorded at the present value of future minimum lease payments, discounted at applicable interest rates.

Note G - Long-Term Debt

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2016:

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Due Within One Year</u>
System Improvements-note	\$ 70,080	\$ -	\$ 3,576	\$ 66,504	\$ 3,755

The District entered into a loan contract with the Department of Local Affairs (DOLA) on June 11, 2009. The District was eligible to receive Energy and Mineral Impact Assistance funding for assistance in drilling a new water supply well. The terms of the contract is 20 years with annual principal and interest payments of \$7,079.74 with the first payment due September 1, 2010. Interest is payable at the rate of 5% per annum.

The annual requirements to amortize the long-term debt as of December 31, 2016 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,755	\$ 3,325	\$ 7,080
2018	3,942	3,137	7,079
2019	4,139	2,940	7,079
2020	4,346	2,733	7,079
2021	4,564	2,516	7,080
2022-2026	26,478	8,921	35,399
2027-2029	<u>19,280</u>	<u>1,959</u>	<u>21,239</u>
Total	\$ 66,504	\$ 25,531	\$ 92,035

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

Note H - Other Obligations

The District entered into a agreement with Utility Service Co., Inc. on February 3, 2015. The agreement was for renovation costs on two tanks. The term of the contract is 6 years with annual payments of \$28,224 with the first payment due August 2015. Interest is payable at the rate of 0% per annum.

The annual requirements to amortize the other obligations as of December 31, 2016 are as follows:

<u>Year Ending December 31</u>		
2017	\$	28,224
2018		28,224
2019		28,224
2020		<u>28,222</u>
Total	\$	<u>112,894</u>

Note I - Insurance Pool

Colorado Special Districts Property and Liability Pool (the Pool) is a separate and independent governmental and legal entity pursuant to the provisions of the Colorado Constitution and Colorado Revised Statutes. On March 8, 1988, the Board of the District approved participation in the Pool. The District has participated each year since then.

The purposes of the Pool are to provide defined property and liability coverage and claims and risk management services related thereto for Member Special Districts through a self-insurance pool.

It is the intent of the members of the Pool to operate an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability or loss to the limit of the financial resources of the Pool. It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs. All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members.

The District's share of the Pool cannot be determined. Condensed financial information of the Pool for the years ended December 31, is as follows:

	<u>2016</u>	<u>2015</u>
Assets	\$ <u>52,645,796</u>	\$ <u>44,054,744</u>
Liabilities	\$ 28,757,242	\$ 24,739,781
Equity	<u>23,888,554</u>	<u>19,314,963</u>
	<u>\$ 52,645,796</u>	<u>\$ 44,054,744</u>
Revenues	\$ 18,932,979	\$ 16,356,266
Expenses	<u>14,100,230</u>	<u>14,839,993</u>
Excess of revenues over (under) expenses	<u>\$ 4,832,749</u>	<u>\$ 1,516,273</u>

NOTES TO FINANCIAL STATEMENTS (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016 and 2015

Note I - Insurance Pool (Continued)

That report may be obtained by writing Colorado District Association of Colorado, 225 East 16th Avenue, Suite 1000, Denver, Colorado 80203 or calling 1-(303)-863-1733 or 1-(800)-886-1733.

Note J - Net Position

The basic financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in capital assets (net of related debt) is intended to reflect the portion of the net position that are associated with non-liquid, capital assets, less outstanding capital asset related debt.

Restricted net position has a third-party (statutory, bond covenant or water user) limitation on their use. Based on Amendment 1 (TABOR), the District has reserved 3% of fiscal year spending for declared emergencies. For the years ended December 31, 2016 and 2015, the District has reserved \$18,000 and \$16,700, respectively.

Unrestricted net position are amounts that do not meet the definition of "invested in capital assets" or "restricted net position" and are available for the District's operations.

Note K - Capital Grant

The District has entered into various agreements with customers to extend the water distribution system in order to provide public water to the premises. Under the terms of the agreements, the customers were to pay for all costs necessary for the service extension. Upon completion, ownership of the system rests with the District.

The District has the rights to sell additional taps from the system. In the event the District elects to sell such taps, rebates will be given for each water and sewer tap fee collected not to exceed the cost of the extensions over the life of the individual agreements.

Note L - Operating Lease

The District is operated in rented facilities. The twenty-four (24) month lease for office space originated October 1, 2012. The lease was extended for twenty - four (24) months and expired September 30, 2016. The monthly rental payment was \$1,060 through September 30, 2015 and \$1,125 through September 30, 2016. A one year extension was signed through September 30, 2017 with no change in the monthly rental payment. Rent expense for the years ended December 31, 2016 and 2015 was \$13,500 and \$12,915.

Future minimum lease payments are as follows for the years ended December 31:

2017	\$ <u>10,125</u>
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Other Supplementary Information

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

BUDGETARY BASIS - BUDGET AND ACTUAL

ROUND MOUNTAIN WATER AND SANITATION DISTRICT

For the year ended December 31, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	2016 ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues				
Water charges	\$ 294,750	\$ 294,750	\$ 318,030	\$ 23,280
Sewer charges	202,250	202,250	208,878	6,628
Tap connection fees	4,200	4,200	10,050	5,850
Other operating income	3,600	3,600	6,345	2,745
Total Revenues	<u>504,800</u>	<u>504,800</u>	<u>543,303</u>	<u>38,503</u>
Nonoperating Revenues				
General property tax	43,901	43,901	40,541	(3,360)
Specific ownership tax	5,300	5,300	5,516	216
Interest income	1,200	1,200	1,695	495
State grants	-	-	798	798
Gain on sale of assets	-	-	-	-
System Development fees	16,800	16,800	9,193	(7,607)
Total Nonoperating Revenues	<u>67,201</u>	<u>67,201</u>	<u>57,743</u>	<u>(9,458)</u>
Total Revenues	<u>572,001</u>	<u>572,001</u>	<u>601,046</u>	<u>29,045</u>
Operating Expenses				
Source of Supply				
Power purchased for pumping	21,500	21,500	27,881	(6,381)
Operating supplies	1,500	1,500	2,055	(555)
Purchased services	3,000	3,000	9,119	(6,119)
Repairs and maintenance	4,000	4,000	2,636	1,364
Salaries	18,520	18,520	17,763	757
Employee health insurance	2,822	2,822	3,204	(382)
Payroll taxes	1,930	1,930	1,412	518
Total Source of Supply	<u>53,272</u>	<u>53,272</u>	<u>64,070</u>	<u>(10,798)</u>
Water Treatment Expense				
Operating supplies	1,500	1,500	3,501	(2,001)
Purchased services	3,500	3,500	3,456	44
Repairs and maintenance	3,500	3,500	2,050	1,450
Salaries	18,520	18,520	17,763	757
Employee health insurance	2,822	2,822	3,204	(382)
Payroll taxes	1,930	1,930	1,412	518
Total Water Treatment Expense	<u>31,772</u>	<u>31,772</u>	<u>31,386</u>	<u>386</u>
Transmission and Distribution Expense				
Operating supplies	1,750	1,750	2,263	(513)
Bad debt expense	-	-	33	(33)
Purchased services	3,000	3,000	2,236	764
Repairs and maintenance	4,000	4,000	22,824	(18,824)
Salaries	18,520	18,520	17,764	756
Employee health insurance	2,822	2,822	3,204	(382)
Payroll taxes	1,930	1,930	1,412	518
Total Transmission and Distribution	<u>32,022</u>	<u>32,022</u>	<u>49,736</u>	<u>(17,714)</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGETARY BASIS - BUDGET AND ACTUAL (Continued)
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the year ended December 31, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	2016 ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Collection and Transmission Expenses				
Power purchased for pumping	\$ 2,800	\$ 2,800	\$ 2,078	\$ 722
Operating supplies	1,500	1,500	2,023	(523)
Purchased services	5,000	5,000	3,811	1,189
Repairs and maintenance	3,000	3,000	2,606	394
Salaries	18,520	18,520	17,762	758
Employee health insurance	2,822	2,822	3,204	(382)
Payroll taxes	1,930	1,930	1,412	518
Total Collection and Transmission	35,572	35,572	32,896	2,676
Sewage Treatment Expenses				
Power purchased for pumping	9,000	9,000	10,798	(1,798)
Operating supplies	1,500	1,500	2,844	(1,344)
Purchased services	34,000	34,000	19,026	14,974
Repairs and maintenance	3,000	3,000	1,892	1,108
Salaries	18,520	18,520	17,762	758
Employee health insurance	2,822	2,822	3,205	(383)
Payroll taxes	1,930	1,930	2,118	(188)
Professional development	2,500	2,500	-	2,500
Total Sewage Treatment Expense	73,272	73,272	57,645	15,627
Administrative and General				
Auditing	8,600	8,600	8,357	243
Communication and transportation	-	-	-	-
Directors' fees and meeting expenses	9,000	9,000	7,000	2,000
Election	4,000	4,000	58	3,942
Employee health insurance	14,110	14,110	16,085	(1,975)
Insurance	27,400	27,400	13,789	13,611
Miscellaneous	-	-	-	-
Office supplies	3,000	3,000	6,910	(3,910)
Payroll taxes	9,603	9,603	8,499	1,104
Postage	1,400	1,400	570	830
Printing, duplicating, etc.	3,000	3,000	2,519	481
Professional development	4,000	4,000	400	3,600
Professional services	7,000	7,000	8,175	(1,175)
Publications, dues	5,250	5,250	6,227	(977)
Rents	13,500	13,500	13,500	-
Salaries	109,798	109,798	106,904	2,894
Travel	5,720	5,720	1,295	4,425
Utilities	12,000	12,000	14,800	(2,800)
Total Administrative and General Expenses	237,381	237,381	215,088	22,293
Total Operating Expenses	463,291	463,291	450,821	12,470

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGETARY BASIS - BUDGET AND ACTUAL (Continued)
 ROUND MOUNTAIN WATER AND SANITATION DISTRICT
 For the year ended December 31, 2016

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>2016 ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Nonoperating Expenditures				
Treasurer's collection fees	\$ 2,300	\$ 2,300	\$ 2,018	\$ 282
Interest expense	39,711	39,711	39,402	309
Principal paid on capital lease	24,340	24,340	22,811	1,529
Principal paid on DOLA loan	3,406	3,406	3,405	1
Capital outlay	<u>67,000</u>	<u>67,000</u>	<u>59,639</u>	<u>7,361</u>
Total Nonoperating Expenditures	<u>136,757</u>	<u>136,757</u>	<u>127,275</u>	<u>9,482</u>
Total Expenditures	<u>600,048</u>	<u>600,048</u>	<u>578,096</u>	<u>21,952</u>
Excess of Revenues Over (Under) Expenditures (Budgetary Basis)	(28,047)	(28,047)	22,950	50,997
Funds Available - Beginning of Year	<u>406,907</u>	<u>406,907</u>	<u>1,044,840</u>	<u>637,933</u>
Funds Available - End of Year	<u>\$ 378,860</u>	<u>\$ 378,860</u>	<u>\$ 1,067,790</u>	<u>\$ 688,930</u>

The accompanying notes to financial statements are an integral part of this schedule.

BUDGET RECONCILIATION
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
December 31, 2016

Reconciliation From Budgetary Basis to GAAP Basis of Accounting

Revenue (Budgetary Basis)	\$ 601,046
Plus:	
Gain on sale of assets	\$ 1,250
Less:	
System development fees	<u>(9,193)</u>
Revenue (GAAP Basis)	<u>593,103</u>
Expenditures (Budgetary Basis)	578,096
Plus:	
Depreciation	226,561
Change in vacation/sick leave accrual	1,559
Less:	
Capital outlay	(59,639)
Principal payments	<u>(26,216)</u>
Expenditures (GAAP Basis)	<u>720,361</u>
Income (Loss) Before Capital Contribution	<u>\$ (127,258)</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF WATER OPERATING EXPENSES
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Source of Supply		
Depreciation	\$ 40,446	\$ 27,368
Power purchased for pumping	27,881	25,846
Operating supplies	2,055	1,333
Purchased services	9,119	18,427
Repairs and maintenance	2,636	2,573
Salaries and wages	17,912	19,622
Employee health insurance	3,204	-
Payroll taxes	<u>1,412</u>	<u>1,560</u>
Total Source of Supply	<u>104,665</u>	<u>96,729</u>
 Water Treatment Expense		
Operating supplies	3,501	1,770
Purchased services	3,456	2,868
Repairs and maintenance	2,050	2,270
Salaries and wages	17,912	19,622
Employee health insurance	3,204	-
Payroll taxes	<u>1,412</u>	<u>1,560</u>
Total Water Treatment Expense	<u>31,535</u>	<u>28,090</u>
 Transmission and Distribution Expense		
Depreciation	72,691	68,804
Bad debt expense	33	-
Operating supplies	2,263	1,821
Purchased services	2,236	2,666
Repairs and maintenance	22,824	9,188
Salaries and wages	17,912	19,622
Employee health insurance	3,204	-
Payroll taxes	<u>1,412</u>	<u>1,560</u>
Total Transmission and Distribution Expense	<u>122,575</u>	<u>103,661</u>
Total Water Operating Expenses	<u>\$ 258,775</u>	<u>\$ 228,480</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF SEWAGE OPERATING EXPENSES
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Collection and Transmission Expenses:		
Depreciation	\$ 69,378	\$ 48,744
Power purchased for pumping	2,078	2,410
Operating supplies	2,023	1,746
Purchased services	3,811	4,803
Repairs and maintenance	2,606	4,082
Salaries and wages	17,911	19,622
Employee health insurance	3,204	-
Payroll taxes	<u>1,412</u>	<u>1,560</u>
Total Collection and Transmission Expenses	<u>102,423</u>	<u>82,967</u>
 Sewage Treatment Expenses:		
Depreciation	35,797	16,058
Power purchased for pumping	10,798	13,796
Operating supplies	2,844	1,323
Purchased services	19,026	4,513
Repairs and maintenance	1,892	1,862
Salaries and wages	17,911	19,622
Employee health insurance	3,205	-
Payroll taxes and other employee benefits	<u>2,118</u>	<u>1,560</u>
Total Sewage Treatment Expense	<u>93,591</u>	<u>58,734</u>
Total Sewage Operating Expenses	<u>\$ 196,014</u>	<u>\$ 141,701</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF ADMINISTRATIVE AND GENERAL EXPENSES
ROUND MOUNTAIN WATER AND SANITATION DISTRICT
For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Administration and General:		
Auditing	\$ 8,357	\$ 8,370
Communication and transportation	-	753
Depreciation	8,249	6,102
Directors' fees and meeting expenses	7,000	2,750
Election	58	-
Employee health insurance	16,085	-
Insurance	13,789	47,995
Miscellaneous	-	100
Office supplies	6,891	3,046
Operating supplies	19	-
Payroll taxes	8,499	7,603
Postage	570	-
Printing, duplicating, etc.	2,519	2,301
Professional development	400	637
Professional services	8,175	8,290
Publications, dues	6,227	7,580
Rents	13,500	12,915
Salaries and wages	107,719	96,032
Travel	1,295	1,724
Utilities	<u>14,800</u>	<u>10,065</u>
Total Administrative and General Expenses	<u>\$ 224,152</u>	<u>\$ 216,263</u>

The accompanying notes to financial statements are an integral part of this schedule.