

CORTEZ SANITATION DISTRICT

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

AND

SUPPLEMENTAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2017

E

RECEIVED

Office of the State Auditor

April 5, 2018

TABLE OF CONTENTS

	Page
Independent auditors' report	1
Roster of district officials	3
Management's discussion and analysis	4
Financial statements	
Government-wide financial statements	
Statement of net position	11
Statement of activities	12
Fund financial statements	
Governmental Fund	
Balance sheet	13
Statement of revenues, expenditures and changes in fund balance	14
Enterprise Fund	
Statement of net position	15
Statement of revenue, expenditures and changes in fund net position	16
Statement of cash flows	17
Notes to financial statements	18
Required supplementary information	
Budgetary comparison schedule - general fund	30
Notes to required supplementary information	31
Supplemental information	
Schedule of revenues, expenditures and changes in net position - budget and actual - enterprise fund	32

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

601 NORTH NEVADA AVENUE
COLORADO SPRINGS, COLORADO 80903-1005

JEFFREY S. ROSACKER, CPA – PARTNER
MITCHELL K. DOWNS, CPA, ABV – PARTNER
GREGORY P. PARSONS, CPA

TELEPHONE (719) 636-2321
FAX (719) 636-2517
WEB WWW.SPRINGSCPA.COM

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cortez Sanitation District
Cortez, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cortez Sanitation District (District), as of and for the year ended December 31, 2017, 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 audit opinion.

INDEPENDENT AUDITOR'S REPORT – Continued

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10, and the budgetary comparison information on page 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental 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 schedule of revenues, expenditures, and changes in net position - budget and actual - Enterprise Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management, 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 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Osborne, Parsons & Osacher LLP

Colorado Springs, Colorado
April 3, 2018

CORTEZ SANITATION DISTRICT

ROSTER OF DISTRICT OFFICIALS

Year ended December 31, 2017

BOARD OF DIRECTORS

Ryan Griglak – Chairman

Jim Candelaria – Vice Chairman

James Fisher – Secretary/Treasurer

Ernest Maness – Director

David Marlman – Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cortez Sanitation District, we offer readers of Cortez Sanitation District's (District) financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017.

Financial Highlights

- The assets of Cortez Sanitation District exceeded its liabilities at the close of the most recent fiscal year by 22,231,253. Out of this amount, \$3,893,560 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- Cortez Sanitation District's total net position increased by \$641,939.
- As of the close of the current fiscal year, Cortez Sanitation District's governmental fund reported an ending fund balance of \$879,570.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements presented are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of District finances, in a manner similar to a private-sector business.

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

The statement of activities 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. uncollected grant expenses).

The government-wide statement of activities distinguishes functions/programs of the District supported primarily by charges for services. The governmental activities of the District include the collection of property tax and payment of bonded debt.

The business-type activities of the District include operations that are intended to recover all or a significant portion of their costs through user fees.

The government-wide financial statements can be found on pages 11-12 of this report.

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two types of funds: governmental fund and proprietary fund.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term financial resources and fund balances (which are spendable resources available at the end of the fiscal year). Such information may be useful in evaluating the District's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government-wide financial statements. By doing so, the readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation of differences between the governmental funds and the government-wide financial statements, if any, to facilitate this comparison.

The District has one governmental fund, the General Fund. This fund accounts for the District's financial resources not required to be accounted for in another fund. The General Fund accounts for revenues and expenditures, for the receipt and payment of administration and debt.

The basic governmental fund financial statements can be found on pages 13-14 of this report.

Proprietary Funds - The District maintains one type of proprietary fund. The proprietary fund type is called the Enterprise Fund. Enterprise funds are used to present the same functions as the business-type activities presented in the government-wide financial statements. The District uses an enterprise fund to account for its service operation.

Proprietary fund financial statements can be found on pages 15-17 of this report.

Government-Wide Financial Analysis

The District had a decrease in net position from Governmental Activities of (\$495,602) for the year, and an increase from Business-Type Activities of \$1,137,541, for a net increase of \$641,939.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Cortez Sanitation District's Statement of Net Position
Two-Year Comparison**

	Governmental activities		Business-type activities		Total activities	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other	\$ 2,249,184	\$ 2,222,225	\$ 4,116,735	\$ 3,453,586	\$ 6,365,919	\$ 5,675,811
Capital assets	-	-	20,050,784	20,519,206	20,050,784	20,519,206
Total assets	<u>2,249,184</u>	<u>2,222,225</u>	<u>24,167,519</u>	<u>23,972,792</u>	<u>26,416,703</u>	<u>26,195,017</u>
Liabilities						
Current liabilities	538,383	447,053	359,692	555,989	898,075	1,003,042
Long-term liabilities	-	-	2,456,144	3,202,661	2,456,144	3,202,661
Total liabilities	<u>538,383</u>	<u>447,053</u>	<u>2,815,836</u>	<u>3,758,650</u>	<u>3,354,219</u>	<u>4,205,703</u>
Deferred inflow of resources	<u>831,231</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>831,231</u>	<u>400,000</u>
Net position						
Net investment in capital assets	-	-	16,848,123	16,598,490	16,848,123	16,598,490
Restricted	879,570	1,375,172	610,000	568,411	1,489,570	1,943,583
Unrestricted	-	-	3,893,560	3,047,241	3,893,560	3,047,241
Total net position	<u>\$ 879,570</u>	<u>\$ 1,375,172</u>	<u>\$ 21,351,683</u>	<u>\$ 20,214,142</u>	<u>\$ 22,231,253</u>	<u>\$ 21,589,314</u>

Assets

Current assets have increased due to increased cash and the elimination of a temporary credit in the 2017 property tax assessment included in receivables. The change in capital assets is due to the addition of sewer lines and purchase of equipment during the fiscal year offset by current year depreciation.

Liabilities

Current liabilities decreased due to the completion of construction projects during the year. Long-term liabilities continue to decrease as debt is paid down.

Deferred Inflow of Resources

The District included a temporary mill levy credit equal to approximately 50% of the assessed mill levy in the prior year. In the current year, the temporary mill levy credit was eliminated.

Net Position

The decrease in restricted net position is due to debt service payments made out of funds restricted for debt service in the governmental activities.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Cortez Sanitation District's Changes in Net Position
Two-Year Comparison**

	Governmental activities		Business-type activities		Total activities	
	2017	2016	2017	2016	2017	2016
Revenues						
Operating revenues						
Charges for services	\$ -	\$ -	\$ 2,313,448	\$ 2,238,407	\$ 2,313,448	\$ 2,238,407
Capital grants and contributions	-	-	261,000	119,857	261,000	119,857
Total	-	-	2,574,448	2,358,264	2,574,448	2,358,264
General revenues						
Taxes	417,826	4,391	18,254	1,999	436,080	6,390
Investment earnings	-	-	40,149	23,692	40,149	23,692
Other	-	-	176,718	100,742	176,718	100,742
Total	417,826	4,391	235,121	126,433	652,947	130,824
Total revenues	417,826	4,391	2,809,569	2,484,697	3,227,395	2,489,088
Expenses						
Sewer operations	-	-	1,352,301	1,329,712	1,352,301	1,329,712
Administration	144,024	126,214	-	-	144,024	-
Depreciation	-	-	898,139	772,977	898,139	772,977
Debt service	149,404	170,617	41,588	44,739	190,992	215,356
Total expenses	293,428	296,831	2,292,028	2,147,428	2,585,456	2,318,045
Excess (deficiency) before transfers	124,398	(292,440)	517,541	337,269	641,939	44,829
Transfers in (out)	(620,000)	(600,000)	620,000	600,000	-	-
Change in net position	(495,602)	(892,440)	1,137,541	937,269	641,939	44,829
Net position - beginning of year	1,375,172	2,267,612	20,214,142	19,276,873	21,589,314	21,544,485
Net position - end of year	<u>\$ 879,570</u>	<u>\$ 1,375,172</u>	<u>\$ 21,351,683</u>	<u>\$ 20,214,142</u>	<u>\$ 22,231,253</u>	<u>\$ 21,589,314</u>

Revenues

Charges for services increased as a result of increases in the minimum monthly service charge and improvements to meter readings for commercial customers.

Current year capital grants and contributions consist of donated distribution lines, valued at the estimated acquisition value.

In the prior year, the District only collected delinquent taxes as a result of a temporary mill levy credit equal to the assessed mill levy. The temporary credit relating to current year tax collections was approximately 50% of the assessed mill levy, resulting in the increase in revenue.

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Level Financial Analysis

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal, federal and state requirements.

The General Fund is the District's primary administrative fund. It accounts for tax receipts used to retire debt and related administrative costs. The fund balance at the beginning of the 2017 fiscal year was \$1,375,172. The ending fund balance for 2017 of \$879,570 reflects a fund balance decrease of (\$495,602). The decrease was due to administration expenditures and the transfer of funds to the Enterprise Fund for debt service payments.

The Enterprise Fund is the District's service operations fund. It accounts for charges for service and related costs. The net position at the beginning of the 2017 fiscal year was \$20,214,142. The ending net position for 2017 of \$21,351,683 reflects a net position increase of \$1,137,541. The increase was due primarily to the transfer of funds from the General Fund for debt service payments, increased sewer charges, contributed distribution lines, and growth within the District resulting in increased sewer development charges and plant investment fees.

Budgetary Highlights

The District adopts an annual appropriated budget for the governmental fund. A budgetary comparison schedule for the General Fund is included on page 29 of this report to demonstrate compliance with the adopted budget.

The District Board adopted the 2017 Budget on December 12, 2016. An appropriation resolution of \$996,106 for the General Fund and \$2,921,408 for the Enterprise were approved. The proprietary fund budget to actual presentation, is not a required supplemental, and is included in additional information on page 31 of the financial statements.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Cortez Sanitation District's Original and Final Budget Comparison – General Fund

	<u>Original</u>	<u>Final</u>	<u>Change</u>
Revenue			
Property taxes	\$ 841,106	\$ 841,106	\$ -
Temporary credit of property taxes	(441,106)	(441,106)	-
Specific ownership taxes	20,000	20,000	-
Total revenue	<u>420,000</u>	<u>420,000</u>	
Expenditures			
Administrative	155,000	155,000	-
Debt service - interest	221,106	221,106	-
Total expenditures	<u>376,106</u>	<u>376,106</u>	
Revenues in excess of expenditures	43,894	43,894	-
Other financing sources (uses)			
Transfers out	<u>(620,000)</u>	<u>(620,000)</u>	-
Net change in fund balance	(576,106)	(576,106)	-
Beginning fund balance	<u>1,242,412</u>	<u>1,242,412</u>	-
Ending fund balance	<u>\$ 666,306</u>	<u>\$ 666,306</u>	<u>\$ -</u>

There was no modification to the original budget adopted.

Cortez Sanitation District's Budget and Actual Comparison – General Fund

	<u>Final</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenue			
Property taxes	\$ 400,000	\$ 395,516	\$ (4,484)
Specific ownership taxes	20,000	22,310	2,310
Total revenue	<u>420,000</u>	<u>417,826</u>	<u>(2,174)</u>
Expenditures			
Administrative	155,000	144,024	10,976
Debt service			
Interest	221,106	141,453	79,653
Treasurer fees	-	7,951	(7,951)
Total expenditures	<u>376,106</u>	<u>293,428</u>	<u>82,678</u>
Revenues in excess of expenditures	43,894	124,398	80,504
Other financing sources (uses)			
Transfers out	<u>(620,000)</u>	<u>(620,000)</u>	-
Net change in fund balance	(576,106)	(495,602)	80,504
Beginning fund balance	<u>1,242,412</u>	<u>1,375,172</u>	<u>132,760</u>
Ending fund balance	<u>\$ 666,306</u>	<u>\$ 879,570</u>	<u>\$ 213,264</u>

Actual results are generally consistent with budgeted amounts.

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

Each year, the adoption of the budget must ensure quality of services for all customers and fiscal stability in ever changing political and economic conditions. Many factors, including the state's financial condition, increasing cost of health insurance, and declining versus growth in residential construction must be considered in budget preparation. In 2018 the District will reline sewer lines in the downtown area of Cortez due to the City's plan to resurface the alleyways with 6" of concrete. It is more cost effective to do this work now rather than wait for a line to break when the District would need to replace the concrete also. The District is also replacing deteriorating lines in an older section of the city. Some of these lines will need to be moved to the street as there are now backyard sheds, trees, etc. on top of the original lines. The District will be purchasing new equipment to replace older equipment that is no longer functional.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cortez Sanitation District, Post Office Drawer 730, 2908 South Broadway, Cortez, Colorado, 81321.

FINANCIAL STATEMENTS

CORTEZ SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 3,431	\$ 1,145,334	\$ 1,148,765
Investments	1,414,522	2,373,646	3,788,168
Receivables			
Taxes	831,231	-	831,231
Accounts	-	438,470	438,470
Capital credit	-	159,285	159,285
Total current assets	<u>2,249,184</u>	<u>4,116,735</u>	<u>6,365,919</u>
Property and equipment			
Land	-	173,686	173,686
Distribution lines	-	13,615,938	13,615,938
Buildings and plants	-	12,559,981	12,559,981
Plant equipment	-	2,585,147	2,585,147
Vehicles	-	974,042	974,042
Furniture and fixtures	-	7,620	7,620
Work in progress	-	51,154	51,154
Total fixed assets	<u>-</u>	<u>29,967,568</u>	<u>29,967,568</u>
Accumulated depreciation	<u>-</u>	<u>(9,916,784)</u>	<u>(9,916,784)</u>
Net property and equipment	<u>-</u>	<u>20,050,784</u>	<u>20,050,784</u>
Total assets	<u><u>\$ 2,249,184</u></u>	<u><u>\$ 24,167,519</u></u>	<u><u>\$ 26,416,703</u></u>
Liabilities			
Current			
Accounts payable	\$ -	\$ 37,994	\$ 37,994
Accrued interest	53,755	6,549	60,304
Accrued wages payable	-	24,321	24,321
Compensated absences	-	21,807	21,807
Unearned revenue	-	7,132	7,132
Due to (from) other funds	484,628	(484,628)	-
Notes payable - due within one year	<u>-</u>	<u>746,517</u>	<u>746,517</u>
Total current liabilities	<u>538,383</u>	<u>359,692</u>	<u>898,075</u>
Long-term			
Notes payable	<u>-</u>	<u>2,456,144</u>	<u>2,456,144</u>
Total long-term liabilities	<u>-</u>	<u>2,456,144</u>	<u>2,456,144</u>
Total liabilities	<u>538,383</u>	<u>2,815,836</u>	<u>3,354,219</u>
Deferred inflow of resources			
Unearned property taxes	<u>831,231</u>	<u>-</u>	<u>831,231</u>
Net position			
Net investment in capital assets	-	16,848,123	16,848,123
Restricted:			
TABOR	4,400	-	4,400
Emergency reserves	-	610,000	610,000
Debt service	875,170	-	875,170
Unrestricted	<u>-</u>	<u>3,893,560</u>	<u>3,893,560</u>
Total net position	<u><u>\$ 879,570</u></u>	<u><u>\$ 21,351,683</u></u>	<u><u>\$ 22,231,253</u></u>

See notes to financial statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Functions/programs	Operating Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary government:							
Governmental activities:							
Administration	\$ 144,024	\$ -	\$ -	\$ -	\$ (144,024)	\$ -	\$ (144,024)
Debt service							
Interest	63,253	-	-	-	(63,253)	-	(63,253)
Administrative fees	78,200	-	-	-	(78,200)	-	(78,200)
Treasurer fees	7,951	-	-	-	(7,951)	-	(7,951)
Total governmental activities	293,428	-	-	-	(293,428)	-	(293,428)
Business-type activities:							
Operating expenses							
Sewer operations	2,292,028	2,313,448	-	261,000	-	282,420	282,420
Total business-type activities	2,292,028	2,313,448	-	261,000	-	282,420	282,420
Total primary government	\$ 2,585,456	\$ 2,313,448	\$ -	\$ 261,000	(293,428)	282,420	(11,008)
General revenues							
Taxes							
Property taxes					395,516	-	395,516
SO tax					22,310	18,254	40,564
Sewer development charges					-	88,245	88,245
Plant investment fees					-	88,245	88,245
Investment earnings					-	40,149	40,149
Miscellaneous income					-	228	228
Total general revenues					417,826	235,121	652,947
Transfers							
Transfer debt service principal payments					(620,000)	620,000	-
Change in net position					(495,602)	1,137,541	641,939
Net position - beginning					1,375,172	20,214,142	21,589,314
Net position - ending					\$ 879,570	\$ 21,351,683	\$ 22,231,253

See notes to financial statements

**CORTEZ SANITATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2017**

ASSETS

Current assets

Cash and cash equivalents	\$	3,431
Investments		1,414,522
Receivables		
Taxes		<u>831,231</u>

Total assets	\$	<u>2,249,184</u>
---------------------	-----------	-------------------------

LIABILITIES AND FUND BALANCES

Current liabilities

Accrued interest expense	\$	53,755
Due to other funds		<u>484,628</u>
Total current liabilities		<u>538,383</u>

Deferred inflow of resources

Unearned property taxes		<u>831,231</u>
-------------------------	--	----------------

Fund balance

Restricted for:		
TABOR reserve		4,400
Debt service		<u>875,170</u>
Total fund balance		<u>879,570</u>

Total liabilities and fund balance	\$	<u>2,249,184</u>
---	-----------	-------------------------

**CORTEZ SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2017**

Revenues	
Property taxes	\$ 395,516
Specific ownership taxes	22,310
Total revenues	417,826
 Expenditures	
Administration	144,024
Debt service	
Interest	63,253
Administration fees	78,200
Treasurer fees	7,951
Total expenditures	293,428
Revenues in excess of expenditures	124,398
 Other financing sources (uses)	
Debt service transfers	(620,000)
Revenues and other sources in excess of expenditures and other uses	(495,602)
Fund balance - beginning	1,375,172
Fund balance - ending	\$ 879,570

See notes to financial statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUND
DECEMBER 31, 2017**

ASSETS

Current assets

Cash and cash equivalents	\$	1,145,334
Investments		2,373,646
Receivables		
Accounts		438,470
Capital credit		159,285
Due from other funds		484,628
Total current assets		4,601,363

Property and equipment

Land		173,686
Distribution lines		13,615,938
Buildings and plants		12,559,981
Plant equipment		2,585,147
Vehicles		974,042
Furniture and fixtures		7,620
Work in progress		51,154
Total property and equipment		29,967,568
Accumulated depreciation		(9,916,784)
Net property and equipment		20,050,784
Total assets	\$	24,652,147

LIABILITIES AND FUND BALANCES

Current liabilities

Accounts payable	\$	37,994
Accrued interest		6,549
Accrued wages payable		24,321
Compensated absences		21,807
Unearned revenue		7,132
Notes payable - due within one year		746,517
Total current liabilities		844,320

Long-term liabilities

Notes payable		2,456,144
Total long-term liabilities		2,456,144
Total liabilities		3,300,464

Net position

Net investment in capital assets		16,848,123
Restricted:		
Emergency reserves		610,000
Unrestricted		3,893,560
Total net position	\$	21,351,683

See notes to financial statements

CORTEZ SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2017

Operating revenues	
Sewer charges	\$ 2,267,208
Other	46,240
Total operating revenues	2,313,448
 Operating expenses	
Administration	250,374
Sanitation Board	17,099
Plant operation	686,091
Sewer line maintenance	398,737
Interest	41,588
Depreciation	898,139
Total operating expenses	2,292,028
Total operating income	21,420
 Nonoperating revenues	
Specific ownership tax	18,254
Sewer development charges	88,245
Plant investment fees	88,245
Interest income	40,149
Miscellaneous income	228
Total nonoperating revenues	235,121
Income before transfers	256,541
 Other financing sources (uses)	
Line contributions from developers	261,000
Debt service transfers	620,000
Total other financing sources (uses)	881,000
Change in net position	1,137,541
Net position, beginning	20,214,142
Net position, ending	\$ 21,351,683

See notes to financial statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2017**

Cash flows from operating activities	
Cash received from customers	\$ 2,238,908
Other operating cash receipts	53,115
Cash payments to employees and board members	(660,923)
Cash payments to suppliers for goods and services	(784,915)
Net cash provided by operating activities	<u>846,185</u>
Cash flows from capital and related financing activities	
Transfer to General Fund	(100,216)
Specific ownership tax	18,254
Sewer development charges	88,245
Plant investment fees	88,245
Miscellaneous	228
Transfer in for principal payments	620,000
Capital expenditures	(234,643)
Debt principal payments	(718,055)
Net cash used by capital and related financing activities	<u>(237,942)</u>
Cash flows from investing activities	
Interest received	40,149
Purchase of investments	(121,587)
Net cash provided by investing activities	<u>(81,438)</u>
Net increase in cash and cash equivalents	526,805
Cash and cash equivalents - January 1 (restated)	<u>618,529</u>
Cash and cash equivalents - December 31	<u>\$ 1,145,334</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 21,420
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	898,139
Changes in assets and liabilities:	
Accounts receivable	(21,632)
Capital credit	6,875
Accounts payable	(53,457)
Accrued interest	(572)
Accrued wages payable	728
Compensated absences	1,352
Unearned revenue	(6,668)
Net cash provided by operating activities	<u>\$ 846,185</u>
Non-cash investing, capital and financing activities	
Non-cash capital contributions	<u>261,000</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CORTEZ SANITATION DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cortez Sanitation District have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting policies, as described below. The following is a summary of the significant accounting policies.

Reporting Entity - The Cortez Sanitation District (District) is a special district organized under Colorado Statutes on February 17, 1953. The District provides sanitation services and generally serves the residents of Cortez, Colorado and the surrounding area. The District is governmental in nature and is autonomous from other organizations, and the residents of the District elect the Board.

Under the provisions of governmental standards, the District is a primary government that has a separate governing body, is legally separate, and financially independent of other governments. Financially independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, set rates or charges, and interact with other entities. The District has no component units, which are other legally separate organizations, for which it is financially accountable. The District has no material relationships with other primary governments.

No other entity qualified as a potential component unit. The decision to include or exclude a potential component unit in the reporting entity is through the application of the criteria set forth by governmental standards. The criteria for determining a component unit includes the District's ability to exercise oversight responsibility, financial interdependence, the ability to exercise oversight responsibility include the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. Other criteria include evaluating potential component units based on the scope of public service. Application of this criterion involves considering whether the activity of the other primary government benefits the District and/or its residents, overlaps the geographic boundaries of the District and is generally available to its residents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The government-wide financial statements, i.e., the statement of net position and the statement of changes in net position, report information on all of the activities of the District. Inter-fund activity is presented in conformity with GASB prescribed guidance. Governmental activities, which normally are supported by taxes, charges for services, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment offset program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are reported under general revenues.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund Financial Statements - The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The District reports the following major funds:

General Fund - The General Fund is the District's primary administrative fund. It accounts for tax receipts used to retire debt and related administrative financial costs.

Sewer Enterprise Fund - Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user's charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied.

All governmental funds are accounted for on a flow of current financial resources basis. Balance sheets for these funds generally include only current assets and current liabilities. Reported fund balances are considered a measure of available, spendable resources. Operating statements for these funds present a summary of available, spendable resources and expenditures for the period. Revenues are recognized when they are both measureable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the fiscal year.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for services and sales. The District also recognizes as operating revenue the portion of fees used to connect customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The District reports all other revenues and expenses as non-operating.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgets and Budgetary Accounting - Budgets are adopted on a governmental modified cash basis. All annual appropriations lapse at fiscal year-end.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. State law requires all funds to be included in the budget filed with the State of Colorado within thirty days after the beginning of the fiscal year. The District Manager submits to the District Board, in October, a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures by fund and the means of financing them. All budgets lapse at year-end. Prior to December 31, the board adopts the budget by formal resolution.
- B. State statues require that expenditures may not legally exceed appropriations at the fund level without a formally approved amendment to the budget. The District Board approves amendments, which change the total appropriated funds, prior to filing with the State.
- C. Budgeted figures in the supplemental financials are from the original budget adopted by the District Board. The District filed a subsequent amendment to the original budget. This amendment corrected the amount appropriated for expenditures to match the original budget.

Cash and Cash Equivalents - Cash and invested cash approximate fair value. The District reports liquid investments, with a maturity of three months or less, as cash and cash equivalents.

Interest Receivable - The District recognizes interest on investments in the period earned.

Receivables and Allowances for Doubtful Accounts - The District reports receivables net of allowances for doubtful accounts. Management evaluates receivables for collectability, and due to the power of the District, it can place liens on residences for non-payment, and believes all receivables are fully collectable and has made no allowance for doubtful account. Capital credits are anticipated to be received subsequent to December 31, 2018.

Property and Equipment - The District carries property and equipment at historical cost, less accumulated depreciation. Management depreciates assets over the estimated useful life using the straight-line method, beginning in the first full year of service. The District capitalizes work in process, and does not record depreciation until the period the asset is available for use.

Management has estimated the following useful lives of the assets:

Buildings and improvements	30-50 years
Infrastructure assets	30-50 years
Equipment	5-20 years
Furniture and fixtures	5-20 years

Unearned Revenues – Customer credit balances and early payments for sewer services are recorded as unearned revenues.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - It is the District's policy to allow employees to accumulate vacation and sick pay benefits. Employees may accumulate vacation and sick pay up to a predetermined maximum level compensated through paid time off or at termination of employment. It is the District's policy to estimate the amount of sick time used in the subsequent year as a basis for the accrual.

Interfund Receivables/Payables and Transfers – During the course of operations, payments or receipts may be made or received in one fund but relate to activity in another fund, resulting in interfund receivables/payables. These receivables and payables are classified, if applicable, as “due from other funds” and “due to other funds” in the fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers. Interfund receivables/payables are not expected to be repaid within one year.

Deferred Inflows and Outflows of Resources - A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period.

Both deferred inflows and outflows reported in the statement of net position, but not recognized in the financial statements as revenues and expenses, until the period(s) to which they relate. Deferred inflows of resources are comprised of unearned property tax revenues.

Fund Equity - The General Fund reports fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for the funds. Fund balances for the District's General Fund consists of the following classifications.

Non-spendable - includes amounts that (a) are not in spendable form or (b) legally or contractually required. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories, prepaid items, and long-term notes receivable.

Restricted - includes amounts that are restricted for specific purposes stipulated by external resource providers constitutionally or through enabling legislation.

Committed - includes amounts segregated for the specific purposes determined by the passage of a resolution of the District's board directors. Modification or changes to these commitments require approval through the District's board by resolution.

Assigned - includes amounts segregated by District's Board of Directors through their communications with management as to the intended use of segregated funds. Assigned funds are not legally restricted, nor committed by official board resolution, but are assigned based on management's understanding of the intended use of the funds.

Unassigned - this is the residual classification for any other funds not considered segregated by law, contractual obligation, board resolution or intent.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned, and unassigned.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net asset classification in the Government Wide financial statements are as follows:

Net Investment In Capital Assets - this classification consists of capital assets net of accumulated depreciation, reduced by any outstanding debt attributed to the acquisition, construction or improvement of the capital assets.

Restricted Net Position - this classification consists of restrictions created by external creditors, grantors, contributors, laws or regulations of the other governments, enabling legislation and constitutional provisions.

Unrestricted Net Position - This classification represents the residual funds balances not classified in of the two categories above.

Revenues and Expenses - The Enterprise Fund recognizes revenues and expenses based on accrual accounting as prescribed by GAAP.

Property Tax Revenues - On December 15, the District levies property taxes, based on the assessed value of property as certified by the County Assessor on or before December 10. Property tax attaches a lien on January 1 and may be paid in full by April 30 or in equal installments by February 28 and June 15.

Contributions - The Enterprise Fund considers non-operating revenues to consist of capital contributions towards repair and replacement costs to include tap fees, water resource fees, developer infrastructure donated assets, and other development fees. The Enterprise Fund recognizes donated infrastructure at the estimated fair market value as defined by the internally calculated cost to construct the same assets.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires the administration to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ materially from those estimates.

Amortization - The District amortizes the advanced refunding benefits on a straight-line basis over the outstanding life of the bond as a component of interest expense. Management has determined that the straight-line method is not materially different from the effective interest rate method prescribed by GAAP.

Operating Reserve - The loan agreements with the Colorado Water Resources and Power Development CWRPDA generally require that the District maintain a minimum of a three-month operating reserve relating to the anticipated expenditures for Enterprise Fund. Restricted funds available for this reserve as of December 31, 2017, was \$610,000.

TABOR - In compliance with TABOR, the District has set aside a reserve fund balance equal to 3% of expenditures and reflected in the government wide statement of financial position as restricted for TABOR.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – CASH AND CASH EQUIVALENTS

Government-wide cash and cash equivalents held at financial institutions as of December 31, 2017, are as follows:

Demand deposits	\$ 1,144,800
Cash with County Treasurer	3,431
Cash on hand	<u>534</u>
Total cash and cash equivalents	<u>\$ 1,148,765</u>

Deposits –The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash only in eligible public depositories. The depository institution must pledge eligible collateral as security for all public deposits held by that institution not covered by the FDIC, equal to at least 102% of the total uninsured deposits held by that institution of governmental entity fund. Throughout the year, the District has cash deposits in excess of the FDIC insurance. All funds in excess of the FDIC coverage were in PDPA covered financial institutions.

NOTE 2 – INVESTMENTS

The District is subject to the provisions of the Colorado Revised Statutes 24-75-601, which is entitled “Concerning Investments in Securities by Public Entities”. This law, among other things, outlines the types of securities that public entities in Colorado may invest. 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, guaranteed investment contracts, and U.S. dollar-dominated corporate or bank debt. The Statute also includes a provision limiting any investment to five-year maturities or less, unless the governing body authorizes a longer period.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the District’s will not be able to recover the value of its investments that are possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the District’s name and are held by either the counterparty to the investment purchase or held by the counter party’s trust department or agent but not held in the District’s name. None of the District’s investments owned at December 31, 2017 were subject to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an instrument. The District is subject to interest rate risk, but does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management evaluated their investment policy as of December 31, 2017, and believes their exposure to interest rate risk was minimal.

Credit Risk – Credit risk is the risk of loss due to a debtor’s non-payment of a loan or other line of credit (either principal, interest or both). The District is subject to credit risk but does not have a formal investment policy that limits investments beyond the requirements of Colorado statutes. As of December 31, 2017, the District’s investments in ColoTrust and CSAFE were rated AAAM by Standard & Poor’s.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – INVESTMENTS - Continued

Fair Value Measurement - Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques. According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

The District’s investments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure fair value of assets and liabilities as follows.

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy.

Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

At December 31, 2017, the District had the following investments:

	<u>Total</u>	<u>Fair Value Inputs</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at Fair Market Value				
ColoTrust	\$ 614,280	\$ -	\$ 614,280	\$ -
Investments measured at Net Asset Value (NAV)				
CSAFE	<u>3,173,888</u>	N/A	N/A	N/A
Total investments	<u>\$ 3,788,168</u>			

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – INVESTMENTS - Continued

ColoTrust is not a 2a7-like external investment pool. ColoTrust operates similarly to a money market fund and each share is equal in value to \$1. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. ColoTrust may invest in securities with a maximum maturity of 365 days and an average weighted maturity not in excess of 60 days. ColoTrust is rated AAAM by Standard and Poor's. The investment pool financial statements can be obtained at www.colotrust.com.

CSAFE is considered to be a 2a7-like investment and is valued using the net asset value (NAV) per share (or its equivalent) of the investments. The 2a7-like investments do not have any unfunded commitments, redemption restrictions or redemption notice periods. CSAFE is a highly liquid fund operating similarly to a money market fund.

The 2a7-like investments conform to Colorado Status CRS 24-75-601 et. seq. and therefore invests primarily in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, highly rated commercial paper, highly rated corporate bonds, Colorado depositories collateralized at 102% of market value according to the guidelines of the Public Deposit Protection Act. The investments will conform to its Permitted Investments and will meet Standard & Poor's investment guidelines to achieve an AAAM rating, the highest attainable rating for a Local Government Investment Pool. The investment pool financial statements can be obtained www.csafe.org.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – CAPITAL ASSETS

A summary of the changes to capital assets are as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated					
Land	\$ 173,686	\$ -	\$ -	\$ -	\$ 173,686
Work in progress	-	51,154	-	-	51,154
	<u>173,686</u>	<u>51,154</u>	<u>-</u>	<u>-</u>	<u>224,840</u>
Capital assets, being depreciated					
Distribution lines	13,294,782	324,203	(3,047)	-	13,615,938
Buildings and plant	12,559,981	-	-	-	12,559,981
Plant equipment	2,530,787	54,360	-	-	2,585,147
Vehicles	974,042	-	-	-	974,042
Furniture and fixtures	7,620	-	-	-	7,620
	<u>29,367,212</u>	<u>378,563</u>	<u>(3,047)</u>	<u>-</u>	<u>29,742,728</u>
Less: accumulated depreciation					
Distribution lines	(3,624,612)	(303,535)	3,047	-	(3,925,100)
Buildings and plant	(3,358,767)	(342,571)	-	-	(3,701,338)
Plant equipment	(1,535,131)	(168,614)	-	-	(1,703,745)
Vehicles	(495,562)	(83,419)	-	-	(578,981)
Furniture and fixtures	(7,620)	-	-	-	(7,620)
	<u>(9,021,692)</u>	<u>(898,139)</u>	<u>3,047</u>	<u>-</u>	<u>(9,916,784)</u>
Capital assets, being depreciated, net	<u>20,345,520</u>	<u>(519,576)</u>	<u>-</u>	<u>-</u>	<u>19,825,944</u>
Total business-type activities capital assets, net	<u>\$ 20,519,206</u>	<u>\$ 468,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,050,784</u>

Depreciation expense recorded in the business-type activities operating expenses for the year ended December 31, 2017, was \$898,139.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – TAX, SPENDING, REVENUE AND DEBT LIMITATIONS

TABOR - In November 1992, the voters of Colorado approved an amendment to the Colorado Constitution, adding Section 20 to Article X, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax, spending, revenue and debt limitation that apply to the State of Colorado and all local governments, including special districts. In addition, TABOR requires local governments to establish an emergency fund reserve. The fund reserve must equal at least 3% of certain fiscal year spending. The statement of net position for the General Fund indicates that an amount of \$4,400 is restricted for the required reserve.

TABOR is complex and subject to interpretation. Provisions of TABOR, including the interpretation of fiscal year spending limits calculations, tax revenues subject to refunding, and other compliance issues require legal interpretation and possibly judicial review. The District makes no representation as to the overall impact of TABOR on the future activities of the District, including its ability to generate sufficient revenues for future general operations, additional programs, or to engage in any subsequent financing activities.

Enterprise Funds - Enterprise Funds are generally exempt from the provisions of TABOR. The District's management believes that the proprietary activities of the District qualify as an Enterprise Fund. The Enterprise Fund is a self-funded fund, which receives no subsidies from the General Fund tax revenues. The Enterprise fund assesses an operating fee to the General Fund.

General Obligation Bonds Mill Levy - In May of 2000, the voters approved a general obligation bonds principal and interest mill levy, appropriated annually for the service of debt payments relating to the 2001 loan from the Colorado Water Resources and Power Development Authority (CWRPDA).

NOTE 5 – LONG-TERM DEBT

Water Pollution Control Revolving Fund 2001 Series-A - On August 1, 2001, the District obtained a loan from the CWRPDA of \$9,775,000 at interest, including the administrative fee, at an effective interest rate that calculates between 6% and 8% of the estimated outstanding balance. The CWRPDA funded the loan by issuing 2001 Series-A bonds on May 1, 2001, with multiple interest rates. The District's loan from the CWRPDA is payable in principle and interest over 20 years, with payments of approximately \$380,000, due semi-annually in February and August of each year.

Supplementary Revenue Allowances (SRA's) - The CWRPDA appropriates annual SRA's as a way to subsidize the loans they issue, effectively reducing the interest costs to the District. During the fiscal year ending 2017, the District received \$70,768 in supplementary revenue allowances from the CWRPDA.

Loan Collateral and Covenants - All capital assets constructed from loan proceeds are collateral against the loan, as well as any other legal remedies available under law in the event the District defaults on the loan.

The CWRPDA's covenants include the annual board appropriation of the mill levy, service fees must be sufficient to allow for proper maintenance of the capital assets and provide for operating expenses, establishing a three-month operating reserve, and the annual submission of the final audit. As of December 31, 2017, the District was in material compliance with all covenants.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – LONG-TERM DEBT - Continued

Water Pollution Control Revolving Fund Loan - On May 3, 2007, the CWRPDA issued a second loan for \$2,000,000 to the District. No subsidies were associated with this loan. The 2007 loan is due in semi-annual installments of \$69,964 on May 1 and November 1, including interest at 3.5% and an annual administrative fee, through May 1, 2027.

The business activities net revenues, defined as revenues after deducting necessary operation and maintenance expense, are collateral against the loan. Further, rates must be sufficient to produce gross revenues to pay all operating and maintenance expenses, plus 110% of the total debt service payments.

Administrative Fees - The CWRPDA breaks out interest expense into two components, interest and an administrative fee. The administrative fee is the portion of the interest expense internally allocated by the CWRPDA for administrative expenses. The interest expense and administrative fee combined is the total interest expense.

The following is a government wide schedule of changes to the debt service requirements in 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Requirements</u>	<u>Ending Balance</u>	<u>Portion Due Within One Year</u>
CWRPDA 2001	\$ 2,700,000	\$ -	\$ 620,000	\$ 2,080,000	\$ 645,000
CWRPDA 2007	1,220,716	-	98,055	1,122,661	101,517
	<u>\$ 4,615,427</u>	<u>\$ -</u>	<u>\$ 718,055</u>	<u>\$ 3,202,661</u>	<u>\$ 746,517</u>

Interest expense of \$141,453 and \$41,367 was included in the governmental and business-type activities, respectively, for the year ending December 31, 2017.

The following is the estimated five-year maturity schedule:

Government-Wide				Total
<u>December31,</u>	<u>Principal</u>	<u>Admin Fee</u>	<u>Interest</u>	<u>Obligation</u>
2018	\$ 746,517	\$ 88,200	\$ 79,226	\$ 913,943
2019	795,101	68,650	44,125	907,876
2020	853,812	39,325	21,118	914,255
2021	112,654	10,000	17,276	139,930
2022	116,631	7,500	15,798	139,929
2023-2027	577,946	7,500	44,239	629,685
	<u>\$ 3,202,661</u>	<u>\$ 221,175</u>	<u>\$ 221,782</u>	<u>\$ 3,645,618</u>

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – RETIREMENT PLAN

In 2016, the District established a defined contribution District Retirement Plan (Plan) intended to qualify as a profit sharing plan under Internal Revenue Code a Section 401(a). Any full-time employee who is at least age 18 and scheduled to work regularly at least 30 hours per week is eligible to participate in the Plan upon date of hire. The Plan documents require a contribution of 5% of the participant's compensation. Participants may contribute any amount to the Plan if the contribution satisfies the requirements under law for Rollover Contributions. Amounts are fully vested at all times.

The District established a Section 457 Plan for employee contributions. As of December 31, 2017, no employees are actively contributing to the Section 457 Plan.

During the fiscal year ending December 31, 2017, the District made \$29,442 in retirement contributions.

NOTE 6 – PARTICIPATION IN PUBLIC ENTITY RISK POOL

The District is a member of the Colorado Special Districts Property and Liability Pool (CSD Pool). The CSD Pool was created under authority of Colorado State Statutes, and provides defined property and liability coverage, and claims and risk management services.

The District pays an annual premium to the CSD Pool for insurance coverage. For 2017, the District paid \$25,274 in insurance premiums. The District's agreement with the CSD Pool provides the CSD Pool will be self-sustaining through member premiums.

The District is subject to additional liabilities should the CSD Pool's anticipated claims exceed available reserves. There were no significant reductions in insurance coverage from the prior year, and no claims that exceeded reserved coverage in the last three years.

NOTE 7 – 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. As of December 31, 2017, the District was not aware of any contingent liabilities that would require estimates relating to any of these types of exposures.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2018, the date on which the financial statements were available for release.

In February 2018, the District entered into a 7-year lease-purchase agreement for a freightliner van with meter monitoring equipment for \$186,819 at an interest rate of 4.60%. The lease-purchase agreement requires payments of \$15,339, due semi-annually in February and August each year beginning August 2018.

REQUIRED SUPPLEMENTAL INFORMATION

**CORTEZ SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Final Budget</u>
			<u>Basis</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenue				
Property taxes	\$ 400,000	\$ 400,000	\$ 395,516	\$ (4,484)
Specific ownership taxes	20,000	20,000	22,310	2,310
Total revenue	<u>420,000</u>	<u>420,000</u>	<u>417,826</u>	<u>(2,174)</u>
Expenditures				
Administrative	155,000	155,000	144,024	10,976
Debt service				
Interest	221,106	221,106	141,453	79,653
Treasurer fees	-	-	7,951	(7,951)
Total expenditures	<u>376,106</u>	<u>376,106</u>	<u>293,428</u>	<u>82,678</u>
Revenues in excess of expenditures	43,894	43,894	124,398	80,504
Other financing sources (uses)				
Transfers out	<u>(620,000)</u>	<u>(620,000)</u>	<u>(620,000)</u>	<u>-</u>
Net change in fund balance	(576,106)	(576,106)	(495,602)	80,504
Beginning fund balance	<u>1,242,412</u>	<u>1,242,412</u>	<u>1,375,172</u>	<u>132,760</u>
Ending fund balance	<u>\$ 666,306</u>	<u>\$ 666,306</u>	<u>\$ 879,570</u>	<u>\$ 213,264</u>

**CORTEZ SANITATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

BUDGETARY INFORMATION

Cortez Sanitation District (District) adheres to the following procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

On or before October 15, the District Manager submits to the Board of Directors a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. The District adopts budgets for all funds. The general fund uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budgets.

Expenditure estimates in the annual budget are enacted into law by the passage of appropriation resolutions. Budgetary control exists at the total fund level and encumbrance accounting is not employed as a part of the budgetary process.

SUPPLEMENTAL INFORMATION

**CORTEZ SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL - ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Operating				
Sewer charges	\$ 2,149,116	\$ 2,149,116	\$ 2,267,208	\$ 118,092
Other charges	35,000	35,000	46,240	11,240
Specific ownership tax	-	-	18,254	18,254
Sewer development charges	44,000	44,000	88,245	44,245
Plant investment fees	44,000	44,000	88,245	44,245
Interest income	7,656	7,656	40,149	32,493
Miscellaneous	-	-	228	228
Line contributions from developers	-	-	261,000	261,000
Debt service transfers	620,000	620,000	620,000	-
Total revenue	<u>2,899,772</u>	<u>2,899,772</u>	<u>3,429,569</u>	<u>529,797</u>
Expenditures				
Administration	458,639	458,639	250,374	208,265
Sanitation Board	28,462	28,462	17,099	11,363
Plant operation	773,936	773,936	686,091	87,845
Sewer line maintenance	396,441	396,441	398,737	(2,296)
Capital outlay	504,000	504,000	234,643	269,357
Debt service		-		
Interest	41,875	41,875	42,160	(285)
Principal	718,055	718,055	718,055	-
Total expenditures	<u>2,921,408</u>	<u>2,921,408</u>	<u>2,347,159</u>	<u>574,249</u>
Income - budget basis	<u>\$ (21,636)</u>	<u>\$ (21,636)</u>	1,082,410	<u>\$ 1,104,046</u>
To reconcile net income to GAAP basis				
Capital outlay			234,643	
Principal payments			718,055	
Depreciation			(898,139)	
Accrued interest			572	
Net income GAAP basis			<u>\$ 1,137,541</u>	