

East River Regional Sanitation District

Financial Report

December 31, 2017 and 2016

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July 10, 2018

**East River Regional Sanitation District
Financial Report
December 31, 2017 and 2016**

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MCMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

CHAPEL SQUARE, BLDG C
245 CHAPEL PLACE, SUITE 300
P.O. Box 5850, AVON, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM
MAIN OFFICE: (970) 845-8800
FACSIMILE: (970) 845-8108
E-MAIL: MCMAHAN@MCMAHANCPA.COM

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
East River Regional Sanitation District
Crested Butte, Colorado**

Report on the Financial Statements

We have audited the accompanying financial statements of the East River Regional Sanitation District (the "District"), as of and for the years ended December 31, 2017 and 2016, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East River Regional Sanitation District as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Member: American Institute of Certified Public Accountants

PAUL J. BACKES, CPA, CGMA
MICHAEL N. JENKINS, CA, CPA, CGMA
DANIEL R. CUDAHY, CPA, CGMA

AVON: (970) 845-8800
ASPEN: (970) 544-3996
FRISCO: (970) 668-3481

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
East River Regional Sanitation District
Crested Butte, Colorado

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B 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 Management's Discussion and Analysis in Section B in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
June 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

EAST RIVER REGIONAL SANITATION DISTRICT

Management's Discussion and Analysis
December 31, 2017

We, the financial managers of the East River Regional Sanitation District (the "District"), offer readers of the District's financial statements this narrative summary of the financial activities of the District for the fiscal year ended December 31, 2017.

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 basic financial statements are comprised of two components: 1) financial statements; and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. These components are discussed below.

Financial Statements: The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, liabilities, and deferred inflows of resources. The difference between the total of asset and the total of liabilities and deferred inflows of resources is 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 Revenues, Expenses and Changes in Fund Net Position shows how the government's net position changed during the year presented. 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 taxes.)

The Statement of Cash Flows shows the District's sources of cash inflows and outflows during the years presented. Cash flows are categorized among operating, non-capital financing, capital and related financing and investing activities, and unlike items reported in the Statement of Revenues, Expenses and Changes in Fund Net Position, these amounts are reported on the cash basis of accounting.

The District's financial statements can be found on pages C1 through C3 of this report.

Proprietary Funds: The District maintains a proprietary fund commonly known as an enterprise fund. Enterprise funds are used to report business-type activities. The District uses an enterprise fund to account for its sanitation services.

Notes to the Financial Statements: The notes provide a background of the entity, certain required statutes, and accounting policies utilized by the District. They also provide additional information that will aid in the interpretation of the financial statements. The Notes to the Financial Statements can be found in Section D of this report.

Other Information: The Schedule of Revenues and Expenditures - Budget (Non-GAAP Basis) and Actual with Reconciliation to GAAP Basis on page E1 provides a detailed comparison of the District's actual revenues and expenditures to budgeted amounts. As the District's budget was adopted in a manner that is not consistent with generally accepted accounting principles ("GAAP"), this schedule is presented on a non-GAAP basis with reconciliation to GAAP basis.

The business-type activity of the District relates to sanitation services. There are currently no governmental-type activities occurring at the District.

Financial Analysis of the District:

The following chart shows the District's assets, liabilities, and net position for December 31, 2017 and 2016:

East River Regional Sanitation District's Net Position

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 3,782,711	3,587,399
Capital assets	1,280,710	1,334,767
Total Assets	<u>5,063,421</u>	<u>4,922,166</u>
Liabilities:		
Current liabilities	19,925	17,872
Total Liabilities	<u>19,925</u>	<u>17,872</u>
Deferred Inflows of Resources	<u>89,409</u>	<u>81,693</u>
Net Position:		
Net invested in capital assets	1,280,710	1,334,767
Restricted	16,000	16,000
Unrestricted	3,657,377	3,471,834
Total Net Position	<u>\$ 4,954,087</u>	<u>4,822,601</u>

The District's assets increased \$141,255 during 2017. Property tax receivables increased by \$7,770. Cash and investments increased by \$186,287, and a decrease occurred in capital assets of \$54,057.

In 2017, the District's net position increased \$131,486. Non-operating revenues exceeded non-operating expenses by \$117,218 in 2017, while tap fees totaled \$154,140. These changes in net position were partially offset by an operating loss of \$139,872.

The District's increase in liabilities of \$2,058 in 2017, and the increase in deferred inflows of resources was attributable to an increase of \$7,770 in unavailable property tax liability.

Approximately 26% of the District's net position reflects its investment in capital assets, as of December 31, 2017.

At the end of the years 2017 and 2016, the District reported positive balances in all three categories of net position.

Financial Analysis of the District (continued):

The following chart is a summary of information relating to the District's Statement of Revenues, Expenses and Changes in Fund Net Position:

EAST RIVER REGIONAL SANITATION DISTRICT'S CHANGE IN FUND NET POSITION

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Service fees	\$ 249,480	243,659
Rents	900	900
Miscellaneous revenues	2,789	807
Total Programs Revenues	<u>253,169</u>	<u>245,366</u>
General Revenues:		
Tap fees	154,140	196,720
Property taxes	81,227	80,632
Specific ownership taxes	5,497	4,812
Interest income	32,936	19,055
Total General Revenues	<u>273,800</u>	<u>301,219</u>
Total Revenues	<u>526,969</u>	<u>546,585</u>
Expenses:		
Operating expenses	277,256	228,765
Depreciation	115,785	110,154
Treasurers fees	2,442	2,424
Total Expenses	<u>395,483</u>	<u>341,343</u>
Change in Net Position	131,486	205,242
Net Position - Beginning	<u>4,822,601</u>	<u>4,617,359</u>
Net Position - Ending	<u><u>\$ 4,954,087</u></u>	<u><u>4,822,601</u></u>

As mentioned earlier, the increase in net position is partially attributable to \$154,140 of tap fees received by the District in 2017. These tap fees, which are set in excess of actual costs, are used for capital purposes.

There was no significant change in service revenues from the prior year.

When compared to 2016, total 2017 general revenues decreased by \$27,419. The decrease was mainly due to the decrease in tap fees of \$42,580 and offset by an increase in interest income of \$13,881.

Total expenses of the District for 2017 increased \$54,140 from 2016 levels. Salaries and payroll benefits and legal service totaled \$183,971 in 2017, or expressed as a percentage, represented 47% of the operating expenses incurred by the District in 2017; and depreciation accounted for 29% of the total expenses of the District in 2017.

Financial Analysis of the District (continued):

Budget Variances in the Enterprise Fund

The District amended the budget for the 2017 fiscal year to reflect additional revenues and a decrease in total expenditures; the expenses of the District's enterprise fund did not exceed the final budget.

Significant budget variances were as follows:

<u>Account</u>	<u>Original Budget Variance Positive (Negative)</u>	<u>Reason</u>
<i>Revenues:</i>		
Tap fees	\$ 126,889	There were more new home starts in the District than anticipated
<i>Expenditures:</i>		
Repair and maintenance	38,998	Budgeted, but unspent
Capital outlay	268,379	Budgeted, but unspent

Capital Asset and Debt Administration

Capital Assets. The District purchased a truck during 2017. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements in Section D.

Long-term Debts. The District has no long-term debt at December 31, 2017.

Next Year's Budget and Rates

The District's budgeted net position at the end of the current fiscal year was \$3,610,112. The District's 2018 budget anticipates an ending balance of approximately \$3,296,540. This anticipated decrease in net position is due to increase in capital expenditures for the service plant, capital engineering, and no increase in tap fees.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: East River Regional Sanitation District, 350 Country Club Drive, Suite 112A, Crested Butte, CO 81224.

FINANCIAL STATEMENTS

East River Regional Sanitation District
Statement of Net Position
December 31, 2017 and 2016

	2017	2016
Assets:		
Current Assets:		
Cash and investments	3,682,319	3,496,032
Property taxes receivable	89,409	81,693
Accounts receivable - Customers, net of allowance of \$0 in 2017 and 2016	1,444	613
Due from County Treasurer	467	327
Prepaid insurance	8,572	8,234
Other prepaids	500	500
Total Current Assets	3,782,711	3,587,399
Non-Current Assets:		
Capital Assets:		
Land	128,842	128,842
Office space	61,087	61,087
Plant and collection system	3,364,541	3,355,810
Total Capital Assets at Cost	3,578,198	3,545,739
Less accumulated depreciation	2,297,488	2,210,972
Total Non-Current Assets	1,280,710	1,334,767
Total Assets	5,063,421	4,922,166
Liabilities:		
Current Liabilities:		
Accounts payable	13,687	12,518
Accrued payroll taxes	3,944	3,454
Prepaid revenue	1,205	842
Accrued compensated absences	1,089	1,058
Total Current Liabilities	19,925	17,872
Total Liabilities	19,925	17,872
Deferred Inflows of Resources:		
Unavailable property tax revenue	89,409	81,693
Total Deferred Inflows of Resources	89,409	81,693
Net Position:		
Net invested in capital assets	1,280,710	1,334,767
Restricted for emergencies	16,000	16,000
Unrestricted	3,657,377	3,471,834
Total Net Position	4,954,087	4,822,601

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

East River Regional Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues:		
Service fees	249,480	243,659
Rents	900	900
Miscellaneous revenues	2,789	807
Total Operating Revenues	253,169	245,366
Operating Expenses:		
Accounting and auditing	7,860	7,810
Salaries and payroll benefits	129,182	120,110
Directors' fees	6,500	5,800
Repair and maintenance	12,123	9,939
Legal services	54,789	19,118
Utilities	24,902	26,122
Insurance	11,385	10,000
Office expense	7,278	9,232
Fees and dues	1,983	1,986
Travel and education	60	1,382
Tests	5,143	4,371
Supplies and chemicals	4,810	1,997
Engineering and consulting	2,278	2,916
Telephone	3,579	3,942
Depreciation	115,785	110,154
Miscellaneous expense	2,139	1,873
Truck expense	3,245	2,167
Total Operating Expenses	393,041	338,919
Operating (Loss)	(139,872)	(93,553)
Non-Operating Revenues (Expenses):		
Property taxes	81,227	80,632
Specific ownership taxes	5,497	4,812
Interest income	32,936	19,055
Treasurer's fees	(2,442)	(2,424)
Net Non-Operating Revenues	117,218	102,075
Net Income	(22,654)	8,522
Contributions - Tap Fees	154,140	196,720
Change in Net Position	131,486	205,242
Net Position - Beginning	4,822,601	4,617,359
Net Position - Ending	4,954,087	4,822,601

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

East River Regional Sanitation District
Statement Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash received from customers	249,012	243,132
Other cash received	3,689	1,707
Cash payments for goods and services	(147,243)	(106,796)
Cash payments to employees - Salaries and benefits	(128,661)	(119,861)
Net Cash Provided (Used) by Operating Activities	(23,203)	18,182
Cash Flows From Non-Capital Financing Activities:		
Property and specific ownership taxes, net of collection fees	84,142	83,199
Net Cash Provided by Non-Capital Financing Activities	84,142	83,199
Cash Flows From Capital and Related Financing Activities:		
Tap fees collected	154,140	196,720
Capital outlay	(61,728)	(46,912)
Net Cash Provided (Used) by Capital and Related Financing Activities	92,412	149,808
Cash Flows From Investing Activities:		
Interest	32,936	19,055
Net Cash Provided by Investing Activities	32,936	19,055
Net Change in Cash and Cash Equivalents	186,287	270,244
Cash and Investments - Beginning	3,496,032	3,225,788
Cash and Investments - Ending	3,682,319	3,496,032
Reconciliation of Operating (Loss) to Net Cash		
From Operating Activities:		
Operating (loss)	(139,872)	(93,553)
Adjustments to reconcile operating (loss) to net cash from operating activities:		
Depreciation	115,785	110,154
(Increase) decrease in prepaid expenses	(338)	(1,079)
(Increase) decrease in accounts receivable	(831)	(115)
Increase (decrease) in accounts payable and accrued payroll taxes	1,659	3,110
Increase (decrease) in prepaid revenue	363	(412)
Increase (decrease) in accrued compensated absences	31	77
Total Adjustments	116,669	111,735
Net Cash From Operating Activities	(23,203)	18,182

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

NOTES TO THE FINANCIAL STATEMENTS

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017 and 2016

I. Summary of Significant Accounting Policies

The East River Regional Sanitation District (the "District") is a quasi-governmental corporation and governmental subdivision of the State of Colorado located in Gunnison, Colorado. The District was organized on April 25, 1984, for the purpose of providing waste water treatment and transmission service facilities for the District. The District currently is comprised of seven subdivisions covering an area of approximately 1,000 acres.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Accounting Policies

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its sole activity, providing sewage disposal services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods 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 sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts

1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the District.

The District follows Colorado statutes specifying specific investment instruments meeting defined rating criteria in which local governments may invest, which include:

- U.S. Treasury Obligations (maximum maturity of 60 months)
- Federal Instrumentality Securities (maximum maturity of 60 months)
- FDIC-insured Certificates of Deposit (maximum maturity of 60 months)
- Corporate Bonds (maximum maturity of 60 months)
- Prime Commercial Paper (maximum maturity of 60 months)
- Eligible Bankers Acceptances
- Repurchase Agreements
- General Obligations and Revenue Obligations
- Local Government Investment Pools
- Money Market Mutual Funds

**East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. However, no allowance for uncollectible accounts has been established at December 31, 2017 and 2016.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and as unavailable revenue.

4. Prepaid Expenses

Prepaid expenses are amounts paid in advance for expenses related to subsequent years.

5. Capital Assets

Capital assets, which include land, sewer collection systems and related improvements and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed.

The land and easements on which the waste water treatment plant is situated is recorded at cost plus legal fees incurred for acquisition.

The treatment and sewer collection facilities are recorded at their cost, which includes engineering and capitalized net interest costs and legal fees.

Sewer collection systems and improvements and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Sewer collection system and improvements	10-33
Equipment	3-10

6. Compensated Absences

Earned but unused vacation benefits are accrued when incurred in the financial statements.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

7. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an 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 that qualifies for reporting in this category. This amount is deferred and recognized as an inflow of resources in the period that these amounts become available.

8. Tap Fees

Accounting and Financial Reporting for Non-Exchange Transactions, GASB 33, requires that government entities that receive tap fees record the tap fees as revenue for accounting periods beginning after June 15, 2000. The District has reported tap fees for the year ended December 31, 2017 as revenue in the accompanying financial statements; for periods prior to December 31, 2001, the tap fees were recorded as contributed capital by the District.

E. Significant Accounting Policies

1. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

2. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The proprietary fund was adopted on a non-GAAP budgetary basis and has been reconciled to a GAAP basis in the financial statements.

Annual appropriations are adopted for all funds. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2017.

1. For the 2017 budget year, prior to August 25, 2016, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The Manager of the District submitted, on or before October 15, 2016, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
3. Prior to December 15, 2016, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; supplemental appropriations were made for the year 2016; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2016 were collected in 2017 and taxes certified in 2017 will be collected in 2018. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16th.

During the year, a supplemental appropriation ordinance was necessary. The budgetary comparison statements reflect the original budget and the final budget after legally authorized revisions were made.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

The budget for the proprietary fund is adopted on a Non-GAAP budgetary basis and is reconciled to GAAP basis on the budget to actual statement and as presented below for 2017:

Excess of Revenues Over Expenditures	\$ 185,574
Reconciliation to GAAP Basis:	
Capital outlay	61,728
Depreciation	(115,785)
Accrued compensated absences	(31)
Net GAAP Adjustments	(54,088)
Change in Net Position - GAAP Basis	\$ 131,486

The reconciliation for 2016 is as follows:

Excess of Revenues Over Expenditures	\$ 268,560
Reconciliation to GAAP Basis:	
Capital outlay	46,912
Depreciation	(110,154)
Accrued compensated absences	(76)
Net GAAP Adjustments	(63,318)
Change in Net Position - GAAP Basis	\$ 205,242

B. TABOR Amendment

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

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

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The District has provided for an emergency reserve of \$16,000 in compliance with TABOR at December 31, 2017.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

The electorate of the District approved the following ballot questions:

- 1) An increase of up to \$700,000 in the final year of a phased-in tax increase by a certification of additional mill levies for general fund operating expenses in addition to debt service, which increase may be levied and spend regardless of any limitations imposed by C.R.S. § 29-1-301, *et seq.* and Article X, Section 20 of the Colorado Constitution; and
- 2) An increase in East River's revenues and spending up to \$700,000 in any one fiscal year to the extent that revenues and spending in each fiscal year are in excess of applicable revenue and spending limits.

The District's management believes that it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. There were no investments requiring disclosure of the fair value hierarchy.

At years ended, the District had the following deposits and maturities:

December 31, 2017				
Type	Rating	Carrying Amount	Maturities	
			Less Than One Year	Less Than Five Years
<i>Deposits:</i>				
Checking	Not rated	\$ 4,693	-	-
Money market	Not rated	751,711	-	-
COLOTRUST investment pool	AAAm	2,925,915	2,925,915	-
		<u>\$ 3,682,319</u>	<u>2,925,915</u>	<u>-</u>

December 31, 2016				
Type	Rating	Carrying Amount	Maturities	
			Less Than One Year	Less Than Five Years
<i>Deposits:</i>				
Checking	Not rated	\$ 4,421	-	-
Money market	Not rated	598,236	-	-
COLOTRUST investment pool	AAAm	2,893,375	2,893,375	-
		<u>\$ 3,496,032</u>	<u>2,893,375</u>	<u>-</u>

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

The Investment Pool represents an investment in Colorado Liquid Asset Trust (“COLOTRUST”). The investment is measured at the net asset value, and the fair value of the pool is determined by the pool’s share price. The District has no regulatory oversight for the pool.

1. Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. As a result of the limited length of maturities the District has limited its interest rate risk.

2. Credit Risk

State law and District policy limit investments to those authorized by State statutes including U.S. Agencies and 2a7-like pools. The District’s general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

3. Concentration of Credit Risk

The District diversifies its investments by security type and institution.

Investments may only be made in those financial institutions which are insured by the Federal Deposit Insurance Corporation, the Federal Home Mortgage Association, the Federal Savings and Loan Insurance Corporation, Congressionally authorized mortgage lenders and investments that are federally guaranteed.

Financial institutions holding District funds must provide the District with a statement of collateral in the form of a listing of securities pledged, and a copy of the certificate from the Banking Authority that states that the institution is an eligible public depository. Colorado’s PDPA requirement noted above mitigates concentration of credit risk.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 128,842	-	-	128,842
Construction in Progress	-	23,728	-	23,728
Total capital assets not being depreciated	<u>128,842</u>	<u>23,728</u>	<u>-</u>	<u>152,570</u>
Capital assets, being depreciated:				
Office space	61,087	-	-	61,087
Equipment	124,924	38,000	(29,269)	133,655
Plant and collection system	3,230,886	-	-	3,230,886
Total capital assets being depreciated	<u>3,416,897</u>	<u>38,000</u>	<u>(29,269)</u>	<u>3,425,628</u>
Less accumulated depreciation for:				
Office space	(29,298)	(2,036)	-	(31,334)
Equipment	(83,063)	(10,403)	29,269	(64,197)
Plant and collection system	(2,098,611)	(103,346)	-	(2,201,957)
Total accumulated depreciation	<u>(2,210,972)</u>	<u>(115,785)</u>	<u>29,269</u>	<u>(2,297,488)</u>
Total capital assets being depreciated, net	<u>1,205,925</u>	<u>(77,785)</u>	<u>-</u>	<u>1,128,140</u>
Total capital assets, net	<u><u>\$ 1,334,767</u></u>	<u><u>(54,057)</u></u>	<u><u>-</u></u>	<u><u>1,280,710</u></u>

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets (continued)

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 128,842	-	-	128,842
Total capital assets not being depreciated	<u>128,842</u>	<u>-</u>	<u>-</u>	<u>128,842</u>
Capital assets, being depreciated:				
Office space	61,087	-	-	61,087
Equipment	124,268	8,609	(7,953)	124,924
Plant and collection system	3,192,582	43,352	(5,048)	3,230,886
Total capital assets being depreciated	<u>3,377,937</u>	<u>51,961</u>	<u>(13,001)</u>	<u>3,416,897</u>
Less accumulated depreciation for:				
Office space	(27,262)	(2,036)	-	(29,298)
Equipment	(83,759)	(7,258)	7,954	(83,063)
Plant and collection system	(1,997,751)	(100,860)	-	(2,098,611)
Total accumulated depreciation	<u>(2,108,772)</u>	<u>(110,154)</u>	<u>7,954</u>	<u>(2,210,972)</u>
Total capital assets being depreciated, net	<u>1,269,165</u>	<u>(58,193)</u>	<u>(5,047)</u>	<u>1,205,925</u>
Total capital assets, net	<u><u>\$ 1,398,007</u></u>	<u><u>(58,193)</u></u>	<u><u>(5,047)</u></u>	<u><u>1,334,767</u></u>

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to workers compensation; general liability, unemployment, torts, theft of, damage to, and destruction of assets; and errors and omissions. The District has acquired commercial coverage for these risks and claims, if any, are not expected to exceed the commercial insurance coverage.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2017
(Continued)

IV. Other Information (continued)

B. Section 401(a) Retirement Plan

The District offers its employees a retirement savings plan created in accordance with Internal Revenue Code Section 401(a) (the "Plan"). The Plan is administered and invested by Colorado County Officials and Employees Retirement Association. The benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Employees of the District, who work at least 12 months per year and 24 hour per week, with 12 months of continuous service, are eligible to participate in the Plan. All participants make required contributions equal to 5% of compensation, as defined in the Plan, and the District makes a matching contribution of 5%. The District's contributions vest 25% after two years, and the vesting percentage increase 25% each year after that, and become fully vested after five years.

The District's 2017 and 2016 covered payroll was \$82,642 and \$79,752, respectively. During 2017 and 2016, the District's required and actual contributions amounted to \$4,134 and \$3,991, respectively. No forfeited contributions were used to reduce the District's contributions. Participants' required and actual contributions for 2017 and 2016 amounted to \$4,132 and \$3,988, respectively.

As of December 31, 2017 and 2016, there were no outstanding contribution liabilities.

SUPPLEMENTARY INFORMATION

**East River Regional Sanitation District
Schedule of Revenues and Expenditures
Budget (Non-GAAP Basis) and Actual
With Reconciliation to GAAP Basis
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	<u>2017</u>			Final Budget Variance Positive (Negative)	<u>2016</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:					
Service fees	245,403	249,480	249,480	-	243,659
Property taxes	81,693	81,693	81,227	(466)	80,632
Specific ownership taxes	7,000	5,500	5,497	(3)	4,812
Interest	10,000	30,000	32,936	2,936	19,055
Tap fees	27,251	154,140	154,140	-	196,720
Miscellaneous and rents	2,900	4,750	3,689	(1,061)	1,707
Total Revenues	<u>374,247</u>	<u>525,563</u>	<u>526,969</u>	<u>1,406</u>	<u>546,585</u>
Expenditures:					
Accounting and auditing	9,600	8,200	7,860	340	7,810
Salaries and payroll benefits	125,000	129,300	129,151	149	120,034
Directors' fees	7,000	7,000	6,500	500	5,800
Treasurer's fees	2,551	2,551	2,442	109	2,424
Repair and maintenance	50,000	50,000	11,002	38,998	23,334
Legal	30,000	52,000	54,789	(2,789)	19,118
Utilities	27,000	27,000	24,902	2,098	26,122
Insurance	10,000	11,723	11,385	338	10,000
Office expense	10,000	8,000	7,278	722	9,232
Operational engineering and consulting	10,000	10,000	8,506	1,494	2,916
Fees and dues	3,000	2,500	1,983	517	1,986
Tests	4,500	5,000	5,143	(143)	4,371
Chemicals and supplies	5,000	5,000	4,810	190	1,997
Miscellaneous expense	750	500	2,139	(1,639)	1,873
Telephone	4,500	4,000	3,579	421	3,942
Travel and education	3,000	60	60	-	1,382
Truck expense	8,000	4,000	3,245	755	2,167
Capital outlay	325,000	65,000	56,621	8,379	33,517
Total Expenditures	<u>634,901</u>	<u>391,834</u>	<u>341,395</u>	<u>50,439</u>	<u>278,025</u>
Excess of Revenues Over Expenditures	<u>(260,654)</u>	<u>133,729</u>	<u>185,574</u>	<u>51,845</u>	<u>268,560</u>
Reconciliation to GAAP Basis:					
Capitalized assets			61,728		46,912
Depreciation			(115,785)		(110,154)
Accrued compensated absences			(31)		(76)
Net GAAP Basis Adjustments			<u>(54,088)</u>		<u>(63,318)</u>
Change in Net Position			<u>131,486</u>		<u>205,242</u>

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