

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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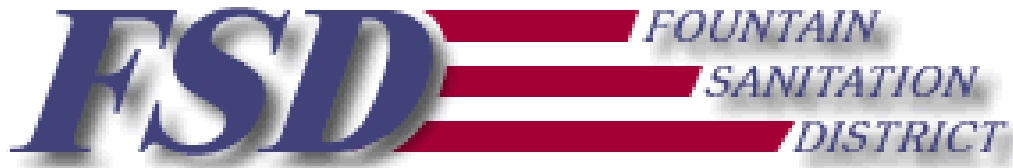


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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fountain Sanitation District
Fountain, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Fountain Sanitation District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Fountain 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.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BiggsKofford, P.C.

Colorado Springs, Colorado
June 12, 2018

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2017

	Business-type Activities - Enterprise Funds			
	Fountain Sanitation District			
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total	LFMSDD (Component Unit)
ASSETS				
Current assets:				
Cash and equivalents	\$ 6,844,677	\$ 11,656,874	\$ 18,501,551	\$ 830,215
Cash and equivalents - restricted	76,063	595,100	671,163	-
Accounts receivable - less allowance for doubtful accounts	124,381	204,049	328,430	17,051
General property taxes receivable	964,246	-	964,246	-
Due from LFMSDD and JCC	-	37,576	37,576	87,880
Inventory	25,732	45,746	71,478	36,141
<u>Total current assets</u>	<u>8,035,099</u>	<u>12,539,345</u>	<u>20,574,444</u>	<u>971,287</u>
Non-current assets:				
Other assets, net of accumulated amortization of \$358,048	5,850	-	5,850	-
Capital assets, not being depreciated				
Land	-	-	-	291,375
Construction in progress	-	-	-	815,715
<u>Capital assets, net</u>	<u>6,522,098</u>	<u>2,731,144</u>	<u>9,253,242</u>	<u>32,967,183</u>
<u>Total non-current assets</u>	<u>6,527,948</u>	<u>2,731,144</u>	<u>9,259,092</u>	<u>34,074,273</u>
<u>Total assets</u>	<u>\$ 14,563,047</u>	<u>\$ 15,270,489</u>	<u>\$ 29,833,536</u>	<u>\$ 35,045,560</u>
LIABILITIES				
Current liabilities:				
Accounts/contracts payable	\$ 25,726	\$ 11,378	\$ 37,104	\$ 270,475
Accrued liabilities	7,429	103,042	110,471	18,106
Accrued vacation and personal leave	71,778	80,840	152,618	-
Due to LFMSDD and JCC	-	87,880	87,880	37,576
Current maturities of note payable	-	316,089	316,089	-
<u>Total current liabilities</u>	<u>104,933</u>	<u>599,229</u>	<u>704,162</u>	<u>326,157</u>
Non-current liabilities:				
Note payable, net of current maturities	-	4,894,932	4,894,932	-
<u>Total liabilities</u>	<u>104,933</u>	<u>5,494,161</u>	<u>5,599,094</u>	<u>326,157</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	964,246	-	964,246	-
NET POSITION				
Invested in capital assets, net of related debt	6,522,098	2,731,144	9,253,242	33,258,558
Restricted for loan agreement requirements	-	346,700	346,700	-
Restricted for emergency reserves	33,900	41,800	75,700	29,400
Unrestricted (see Note 12)	6,937,870	6,656,684	13,594,554	1,431,445
<u>Total net position</u>	<u>13,493,868</u>	<u>9,776,328</u>	<u>23,270,196</u>	<u>34,719,403</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>\$ 14,563,047</u>	<u>\$ 15,270,489</u>	<u>\$ 29,833,536</u>	<u>\$ 35,045,560</u>

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Fountain Sanitation District			
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total	LFMSDD (Component Unit)
ASSETS				
Current assets:				
Cash and equivalents	\$ 5,821,768	\$ 9,660,525	\$ 15,482,293	\$ 953,965
Cash and equivalents - restricted	75,217	588,360	663,577	-
Accounts receivable - less allowance for doubtful accounts	112,136	184,630	296,766	17,696
General property taxes receivable	907,189	-	907,189	-
Due from LFMSDD and JCC	-	30,780	30,780	88,100
Inventory	19,977	35,514	55,491	28,532
<u>Total current assets</u>	<u>6,936,287</u>	<u>10,499,809</u>	<u>17,436,096</u>	<u>1,088,293</u>
Non-current assets:				
Other assets, net of accumulated amortization of \$356,878	7,020	-	7,020	-
Capital assets, not being depreciated				
Land	-	-	-	291,375
Construction in progress	-	-	-	45,144
Capital assets, net	6,299,286	2,144,423	8,443,709	33,713,173
<u>Total non-current assets</u>	<u>6,306,306</u>	<u>2,144,423</u>	<u>8,450,729</u>	<u>34,049,692</u>
<u>Total assets</u>	<u>\$ 13,242,593</u>	<u>\$ 12,644,232</u>	<u>\$ 25,886,825</u>	<u>\$ 35,137,985</u>
LIABILITIES				
Current liabilities:				
Accounts/contracts payable	\$ 52,787	\$ 19,580	\$ 72,367	\$ 47,447
Accrued liabilities	7,948	91,455	99,403	24,689
Accrued vacation and personal leave	62,013	75,540	137,553	-
Due to Fountain Sanitation District	-	88,100	88,100	30,886
Current maturities of note payable	-	310,236	310,236	-
<u>Total current liabilities</u>	<u>122,748</u>	<u>584,911</u>	<u>707,659</u>	<u>103,022</u>
Non-current liabilities:				
Note payable, net of current maturities	-	5,226,471	5,226,471	-
<u>Total liabilities</u>	<u>122,748</u>	<u>5,811,382</u>	<u>5,934,130</u>	<u>103,022</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	907,189	-	907,189	-
NET POSITION				
Invested in capital assets, net of related debt	6,299,286	2,144,423	8,443,709	34,004,548
Restricted for loan agreement requirements	-	345,400	345,400	-
Restricted for emergency reserves	32,400	41,500	73,900	24,200
Unrestricted (see Note 12)	5,880,970	4,301,527	10,182,497	1,006,215
<u>Total net position</u>	<u>12,212,656</u>	<u>6,832,850</u>	<u>19,045,506</u>	<u>35,034,963</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>\$ 13,242,593</u>	<u>\$ 12,644,232</u>	<u>\$ 25,886,825</u>	<u>\$ 35,137,985</u>

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
YEAR ENDED DECEMBER 31, 2017

	Business-type Activities - Enterprise Funds			
	Fountain Sanitation District			
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total	LFMSDD (Component Unit)
<u>OPERATING REVENUES</u>				
Charges for services	\$ 1,404,641	\$ 2,489,143	\$ 3,893,784	\$ 984,310
IGA contract service revenue - LFMSDD	-	499,247	499,247	-
Miscellaneous	18,536	649	19,185	-
Total operating revenues	1,423,177	2,989,039	4,412,216	984,310
<u>OPERATING EXPENSES</u>				
Personnel services	693,686	1,249,314	1,943,000	83,268
Depreciation and amortization	331,530	123,341	454,871	868,416
Supplies	25,963	16,190	42,153	82,826
Repairs and maintenance	44,735	34,428	79,163	27,603
Purchased services	138,767	30,901	169,668	476,886
Utilities	107,071	55,646	162,717	202,938
General and administrative	1,528	3,556	5,084	20,774
Management fees	-	-	-	70,964
Fixed charges	117,856	-	117,856	12,345
Total operating expenses	1,461,136	1,513,376	2,974,512	1,846,020
Operating income (loss)	(37,959)	1,475,663	1,437,704	(861,710)
<u>NON-OPERATING REVENUES AND (EXPENSES)</u>				
Property tax revenue	1,030,867	-	1,030,867	-
Interest income	146,355	44,349	190,704	12,185
Interest expense	-	(110,080)	(110,080)	-
Note payable premium amortization	-	15,449	15,449	-
Total non-operating revenues and (expenses)	1,177,222	(50,282)	1,126,940	12,185
Income (loss) before contributions	1,139,263	1,425,381	2,564,644	(849,525)
Intergovernmental contributions	-	(375,000)	(375,000)	533,965
Capital contributions (connection charges)	141,274	1,214,063	1,355,337	-
Sewer lines contributed	-	679,709	679,709	-
Transfers (to) from other funds	675	(675)	-	-
Change in net position	1,281,212	2,943,478	4,224,690	(315,560)
Total net position, beginning of year	12,212,656	6,832,850	19,045,506	35,034,963
Total net position, end of year	\$ 13,493,868	\$ 9,776,328	\$ 23,270,196	\$ 34,719,403

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Fountain Sanitation District			
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total	LFMSDD (Component Unit)
<u>OPERATING REVENUES</u>				
Charges for services	\$ 1,257,880	\$ 2,279,318	\$ 3,537,198	\$ 925,373
IGA contract service revenue - LFMSDD	-	406,184	406,184	-
Miscellaneous	77,306	1,583	78,889	494
Total operating revenues	1,335,186	2,687,085	4,022,271	925,867
<u>OPERATING EXPENSES</u>				
Personnel services	620,943	1,236,754	1,857,697	39,005
Depreciation and amortization	346,359	121,486	467,845	831,948
Supplies	43,730	18,087	61,817	28,204
Repairs and maintenance	18,838	10,499	29,337	15,749
Purchased services	181,225	68,387	249,612	411,628
Utilities	97,627	47,557	145,184	207,369
General and administrative	-	-	-	27,604
Management fees	-	-	-	63,155
Fixed charges	117,172	-	117,172	11,736
Total operating expenses	1,425,894	1,502,770	2,928,664	1,636,398
Operating income (loss)	(90,708)	1,184,315	1,093,607	(710,531)
<u>NON-OPERATING REVENUES AND (EXPENSES)</u>				
Property tax revenue	961,471	-	961,471	-
Interest income	67,850	15,987	83,837	4,599
Interest expense	-	(115,839)	(115,839)	-
Note payable premium amortization	-	16,978	16,978	-
Total non-operating revenues and (expenses)	1,029,321	(82,874)	946,447	4,599
Income (loss) before contributions	938,613	1,101,441	2,040,054	(705,932)
Intergovernmental contributions	-	(75,000)	(75,000)	192,626
Capital contributions (connection charges)	77,494	807,828	885,322	-
Sewer lines contributed	27,380	-	27,380	-
Transfers (to) from other funds	3,256	(3,256)	-	-
Change in net position	1,046,743	1,831,013	2,877,756	(513,306)
Total net position, beginning of year	11,165,913	5,001,837	16,167,750	35,548,269
Total net position, end of year	\$ 12,212,656	\$ 6,832,850	\$ 19,045,506	\$ 35,034,963

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	Business-type Activities - Enterprise Funds		
	Fountain Sanitation District		
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from customers	\$ 1,409,404	\$ 2,966,064	\$ 4,375,468
Payments to employees	(564,512)	(344,557)	(909,069)
Payments for employee benefits	(129,174)	(82,854)	(212,028)
Payments for operating expenses from LFMSDD	-	(821,903)	(821,903)
Payments to suppliers	(457,962)	(145,728)	(603,690)
Net cash provided by operating activities	<u>257,756</u>	<u>1,571,022</u>	<u>1,828,778</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>			
Transfer (to) from other funds	675	(675)	-
Property taxes received	1,030,867	-	1,030,867
Net cash provided by (used in) non-capital financing activities	<u>1,031,542</u>	<u>(675)</u>	<u>1,030,867</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Fees received as contributions in aid of construction	141,274	1,214,063	1,355,337
Acquisitions and construction of capital assets	(553,172)	(30,353)	(583,525)
Interest expense	-	(110,080)	(110,080)
Principal paid on note payable	-	(310,237)	(310,237)
Net cash provided by (used in) capital and related financing activities	<u>(411,898)</u>	<u>763,393</u>	<u>351,495</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Intergovernmental contributions	-	(375,000)	(375,000)
Interest income	146,355	44,349	190,704
Net cash provided by (used in) investing activities	<u>146,355</u>	<u>(330,651)</u>	<u>(184,296)</u>
Net increase in cash and equivalents	1,023,755	2,003,089	3,026,844
Cash and equivalents, beginning of year	5,896,985	10,248,885	16,145,870
Cash and equivalents, end of year	<u>\$ 6,920,740</u>	<u>\$ 12,251,974</u>	<u>\$ 19,172,714</u>

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Fountain Sanitation District</u>		
	<u>Fountain Sanitation</u>	<u>Jimmy Camp Creek Enterprise</u>	<u>Fountain Sanitation District Total</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating income (loss)	\$ (37,959)	\$ 1,475,663	\$ 1,437,704
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	331,530	123,341	454,871
Net change in operating assets and liabilities:			
Accounts receivable	(12,245)	(19,419)	(31,664)
Due from LFMSDD and JCC	-	(7,016)	(7,016)
Inventory	(5,755)	(10,232)	(15,987)
Accounts payable	(27,061)	(8,202)	(35,263)
Accrued liabilities	(519)	11,587	11,068
Accrued vacation and sick leave	9,765	5,300	15,065
Net cash provided by operating activities	<u>\$ 257,756</u>	<u>\$ 1,571,022</u>	<u>\$ 1,828,778</u>

NON-CASH CAPITAL ACTIVITIES

During the year ended December 31, 2017, the District received sewer lines contributed by developers in the amount of \$679,709.

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds		
	Fountain Sanitation District		
	Fountain Sanitation	Jimmy Camp Creek Enterprise	Fountain Sanitation District Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from customers	\$ 1,353,939	\$ 2,664,444	\$ 4,018,383
Payments to employees	(507,140)	(315,661)	(822,801)
Payments for employee benefits	(113,802)	(68,391)	(182,193)
Payments for operating expenses from LFMSDD	-	(852,702)	(852,702)
Payments to suppliers	(359,994)	(438,168)	(798,162)
Net cash provided by operating activities	<u>373,003</u>	<u>1,215,067</u>	<u>1,588,070</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>			
Transfer (to) from other funds	3,256	(3,256)	-
Property taxes received	961,471	-	961,471
Net cash provided by (used in) non-capital financing activities	<u>964,727</u>	<u>(3,256)</u>	<u>961,471</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Fees received as contributions in aid of construction	77,494	807,828	885,322
Acquisitions and construction of capital assets	(591,783)	(88,290)	(680,073)
Interest expense	-	(115,839)	(115,839)
Principal paid on note payable	-	(304,381)	(304,381)
Net cash provided by (used in) capital and related financing activities	<u>(514,289)</u>	<u>299,318</u>	<u>(214,971)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Intergovernmental contributions	-	(75,000)	(75,000)
Interest income	67,850	15,987	83,837
Net cash provided by (used in) investing activities	<u>67,850</u>	<u>(59,013)</u>	<u>8,837</u>
Net increase in cash and equivalents	891,291	1,452,116	2,343,407
Cash and equivalents, beginning of year	5,005,694	8,796,769	13,802,463
Cash and equivalents, end of year	<u>\$ 5,896,985</u>	<u>\$ 10,248,885</u>	<u>\$ 16,145,870</u>

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Fountain Sanitation District</u>		
	<u>Fountain Sanitation</u>	<u>Jimmy Camp Creek Enterprise</u>	<u>Fountain Sanitation District Total</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (90,708)	\$ 1,184,315	\$ 1,093,607
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	346,359	121,486	467,845
Net change in operating assets and liabilities:			
Accounts receivable	18,753	(22,641)	(3,888)
Due from LFMSDD and JCC	77,115	8,946	86,061
Inventory	(5,759)	(14,187)	(19,946)
Accounts payable	26,328	1,417	27,745
Accrued liabilities	(3,447)	(67,773)	(71,220)
Accrued vacation and sick leave	4,362	3,504	7,866
Net cash provided by operating activities	<u>\$ 373,003</u>	<u>\$ 1,215,067</u>	<u>\$ 1,588,070</u>

NON-CASH CAPITAL ACTIVITIES

During the year ended December 31, 2016, the District received sewer lines contributed by developers in the amount of \$27,380.

The accompanying notes and independent auditor's report
should be read with these financial statements.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. DEFINITION OF REPORTING ENTITY

Fountain Sanitation District ("District") was established in 1955 to provide sewage services and treatment facilities for residents and businesses located within the District's boundaries, which are comprised of a specified portion of the City of Fountain, Colorado and certain surrounding areas.

As of December 31, 2017 and 2016, the District is comprised of two business-type activity funds, Fountain Sanitation ("FS") and Jimmy Camp Creek Basin Wastewater Enterprise ("JCCE"). JCCE was established by a resolution of the District's board of directors on September 7, 2011 in order to facilitate funding of a new treatment plant which will provide service to residents and businesses located in the Jimmy Camp Creek Basin which is located within the boundaries of the District. The establishment of JCCE allowed the District to obtain additional financing to complete payment for its share of the new treatment plant and to adopt fees for wastewater services and for new taps added.

Based on the number of customers located in JCCE's boundaries and the miles of pipeline serving JCCE, the District has adopted a general allocation percentage of 55.56% of expenses and assets for JCCE and 44.44% for FS. The effective date for segregating the activities of JCCE from the District was September 1, 2011. As of the effective date, FS transferred the cash accounts established for the construction of the new treatment plant and 55.56% of the value of pipelines and equipment to JCCE, as well as a 55.56% allocation of certain other assets and liabilities. All revenues related to customers located in JCCE have been recorded in JCCE beginning in September of 2011, and operating expenses (excluding administrative expenses) were allocated to JCCE on a 55.56% basis through December 31, 2013. JCCE does not levy any property taxes.

On January 1, 2016, the District updated the allocation percentages based on current operations. All expenses related to sewage collection and transmission are allocated 64% to JCCE and 36% to FS. All expenses related to the District's sewage treatment plant are allocated 36% to JCCE and 64% to FS. All administrative expenses are allocated 100% to FS.

The District grants credit to its customers, all of whom are local residents and businesses. The administrative operations of the District are financed by sewage treatment revenues and property taxes levied and collected by El Paso County, Colorado.

The District follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial reporting entity

The District's policy is to include in the financial statements all funds, enterprises, account groups, departments, agencies, boards, commissions, and other material component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

The District has been financially accountable for Lower Fountain Metropolitan Sewage Disposal District ("LFMSDD") since 2003. LFMSDD is a component unit because the District appoints a voting majority of its board of directors, and therefore can control LFMSDD. LFMSDD is also financially dependent upon the District. LFMSDD's purpose is to construct and operate a new sewage treatment facility and interceptor sewer that will serve the future needs of the District and of other entities. LFMSDD's financial statements are presented as a discrete component unit. Financial statements for LFMSDD may be obtained by contacting Jim Heckman at the District offices (901 S. Santa Fe Avenue, Fountain, Colorado 80817).

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Basis of accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

Use of estimates

The preparation of financial statements in accordance with US GAAP requires the District to use estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the statements of revenues, expenses and changes in fund net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation services to its customers. Operating revenues consist of user charges and ad valorem tax to customers for services provided.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating revenues and expenses (continued)

Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets and budgetary accounting

Budgetary comparison schedules are provided as supplementary information as required by the Colorado Revised Statutes. There were no changes to the original budget during the years ended December 31, 2017 and 2016.

The District is required by state law to adopt an annual budget. The budget is prepared on a cash basis. The supplementary information on pages 27 to 34 compares the budgeted activity to the actual activity and reconciles such to the actual revenues earned and expenses incurred as shown in the financial statements.

Once a budget is approved, it can be amended in accordance with state provisions only by approval of a majority of the members of the board of directors. A copy of the adopted resolution must be filed with the State Division of Local Governments.

The District's budget establishes control over the following categories of expenditures: general operating, capital outlay, contingency, general fund reserve and emergency fund reserve. Unexpended budgeted amounts lapse at year-end. Contributions of sewer lines are not reflected as a budgetary revenue or expenditure as they do not generate or require the use of funds available.

Cash and equivalents

For purposes of the statements of cash flows, the District considers cash and all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable consist of sewage collection services receivable. Accounts receivable are stated at the amount the District expects to collect. The District maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the District's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Allowances for doubtful accounts of \$20,511 and \$15,427 have been recorded as of December 31, 2017 and 2016, respectively.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of December 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded in the year they are available or collected.

Inventory

Inventory is composed of various spare parts, replacement equipment and expendable supplies and materials used in the operations of the District. Inventory is valued at the lower of cost or market value under the first-in, first-out ("FIFO") method.

Capital assets

Capital assets purchased or acquired with an original cost of \$500 or greater are recorded at historical cost. Contributed capital assets are recorded at their fair value on the date received. Additions, improvements, and other capital outlays that significantly extend the life of an asset are capitalized. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Sewer lines and lagoons	20 - 50 years
Building and improvements	10 - 50 years
Treatment plant and sewage control	10 - 40 years
Equipment	5 - 20 years

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in non-operating revenues (expenses).

Costs of certain engineering, feasibility, environmental and other studies are capitalized until the projects become operational. When projects become operational, the costs are included in capital assets and depreciated over the estimated useful life of the related asset.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital contributions

Capital contributions are comprised of charges for tap fees and other development fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the estimated fair value when received. Capital contributions from charges for the years ended December 31, 2017 and 2016 were \$1,355,337 and \$885,322, respectively. Sewer lines contributed for the years ended December 31, 2017 and 2016 were \$679,609 and \$27,380, respectively.

Deferred inflows of resources

In addition to liabilities, the statement of net 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 reports unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the year the property taxes are levied and budgeted.

Net position

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

3. CASH AND INVESTMENTS

As of December 31, 2017 and 2016, cash deposits and investments are classified on the statements of net assets as follows:

	2017	2016
Cash and equivalents	\$ 18,501,551	\$ 15,482,293
Cash and equivalents - restricted	671,163	663,577
	\$ 19,172,714	\$ 16,145,870

The carrying amounts of cash and equivalents for the District, which equals fair value, as of December 31, 2017 and 2016 are as follows:

	2017	2016
Cash on hand	\$ 100	\$ 100
Bank deposits	285,763	695,338
Investments in ColoTrust	2,049,825	2,027,028
Investments in CSAFE	16,837,026	13,423,404
	\$ 19,172,714	\$ 16,145,870

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. CASH AND INVESTMENTS (CONTINUED)

The carrying amounts of cash and equivalents for LFMSDD, which equals fair value, as of December 31, 2017 and 2016 are as follows:

	2017	2016
Bank deposits	\$ 184,824	\$ 76,904
Investments in CSAFE	645,391	877,061
	\$ 830,215	\$ 953,965

Deposits with Financial Institutions

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

The state commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2017, the District's cash deposits had a bank balance of \$19,184,031 and a carrying balance of \$19,172,714.

As of December 31, 2017, the LFMSDD's cash deposits had a bank balance of \$861,142 and a carrying balance of \$830,215.

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Commissioners. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the District, may invest which include:

- Obligations of the United States and certain United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2017, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	\$ 16,837,026
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>2,049,825</u>
		<u><u>\$ 18,886,851</u></u>

As of December 31, 2017, LFMSDD had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	<u>\$ 645,391</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Operating reserve

The note payable agreement with the Colorado Water Resource and Power Development Authority generally requires that the District maintain a three month operating reserve. For this purpose, the District had restricted net position of \$346,700 and \$345,400 as of December 31, 2017 and 2016, respectively.

Waste Water Treatment Facility

The note payable documents with the Colorado Water Resource and Power Development Authority require that the proceeds from the loan be applied only to the expenses of acquiring, constructing, and equipping the LFMSDD waste water treatment facility. In the event that all of the proceeds of the loan are not required to pay such expenses, any remaining amount shall be used for paying principal and interest on the loan (see Note 8).

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. CAPITAL ASSETS

District capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Balance 01/01/17</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions/ Reclass- ifications</u>	<u>Balance 12/31/17</u>
Capital assets, being depreciated:				
Sewer lines and lagoons	\$ 8,239,620	\$ 872,701	\$ -	\$ 9,112,321
Treatment plant and sewage control	6,497,311	289,413	-	6,786,724
Buildings and improvements	618,539	-	-	618,539
Equipment	1,212,998	101,120	-	1,314,118
Land and improvements	86,632	-	-	86,632
Total capital assets being depreciated	<u>16,655,100</u>	<u>1,263,234</u>	<u>-</u>	<u>17,918,334</u>
Less accumulated depreciation:				
Sewer lines and lagoons	(3,317,073)	(170,623)	-	(3,487,696)
Treatment plant and sewage control	(3,472,001)	(202,948)	-	(3,674,949)
Buildings and improvements	(413,053)	(28,893)	-	(441,946)
Equipment	(979,499)	(51,237)	-	(1,030,736)
Land and improvements	(29,765)	-	-	(29,765)
Total accumulated depreciation	<u>(8,211,391)</u>	<u>(453,701)</u>	<u>-</u>	<u>(8,665,092)</u>
Total capital assets, being depreciated, net	<u>\$ 8,443,709</u>	<u>\$ 809,533</u>	<u>\$ -</u>	<u>\$ 9,253,242</u>

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. CAPITAL ASSETS (CONTINUED)

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 totaled \$454,871 and \$467,845, respectively.

LFMSDD capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Balance 01/01/17</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions/ Reclass- ifications</u>	<u>Balance 12/31/17</u>
Capital assets, not being depreciated:				
Land	\$ 291,375	\$ -	\$ -	\$ 291,375
Total capital assets not being depreciated	<u>291,375</u>	<u>-</u>	<u>-</u>	<u>291,375</u>
Capital assets, being depreciated:				
Sewer lines	8,095,031	6,413	-	8,101,444
Treatment plant and sewage control	28,260,610	101,012	-	28,361,622
Equipment	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total capital assets being depreciated	<u>36,355,641</u>	<u>122,425</u>	<u>-</u>	<u>36,478,066</u>
Less accumulated depreciation:				
Sewer lines	(473,258)	(161,899)	-	(635,157)
Treatment plant and sewage control	<u>(2,169,210)</u>	<u>(706,516)</u>	<u>-</u>	<u>(2,875,726)</u>
Total accumulated depreciation	<u>(2,642,468)</u>	<u>(868,415)</u>	<u>-</u>	<u>(3,510,883)</u>
Total capital assets, being depreciated, net	<u>\$ 33,713,173</u>	<u>\$ (745,990)</u>	<u>\$ -</u>	<u>\$ 32,967,183</u>

Depreciation expense for the year ended December 31, 2017 totaled \$868,415.

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

5. CONSTRUCTION IN PROGRESS

LFMSDD construction in progress activity for the year ended December 31, 2017 is as follows:

	Balance 01/01/17	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/17
Nutrient control improvements, in progress	\$ 45,144	\$ 770,571	\$ -	\$ 815,715
Construction in progress	\$ 45,144	\$ 770,571	\$ -	\$ 815,715

6. ACCRUED VACATION AND PERSONAL LEAVE

The District compensates all full-time employees for vacation benefits at various rates, up to a maximum of 45 days, based on their length of service.

Full-time employees are also entitled to accumulate personal leave at a rate of four hours every two weeks, up to a maximum of 280 hours (35 days). These accumulated hours are payable to the employee upon separation from the District.

Accrued vacation and personal leave totaling \$152,618 and \$137,553 represents the total actual vacation and personal leave hours accrued as of December 31, 2017 and 2016, respectively, for all employees.

7. NOTE PAYABLE

On November 3, 2011, the District entered into an agreement to borrow \$7,097,680 from the Colorado Water Resources and Power Development Authority ("CWRPDA") repayable in initial semi-annual installments of \$202,374 escalating to \$207,659 including servicing fee, principal and interest, at a gross interest rate of 2.23% per annum, maturing August 1, 2032, and secured by District revenues.

The following is a analysis of the changes in the District's long-term debt for the year ended December 31, 2017:

	Balance 01/01/17	Additions	Repayments	Balance 12/31/17	Due within one year
2011 CWRPDA Loan	5,396,928	\$ -	\$ (310,237)	\$ 5,086,691	\$ 316,089
Note payable premium	139,779	-	(15,449)	124,330	-
	<u>\$ 5,536,707</u>	<u>\$ -</u>	<u>\$ (325,686)</u>	<u>\$ 5,211,021</u>	<u>\$ 316,089</u>

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

7. NOTE PAYABLE (CONTINUED)

Future commitments on long-term debt as of December 31, 2017 are as follows:

Year ending December 31,	Principal	Net Interest*	Total
2018	\$ 316,089	\$ 56,044	\$ 372,133
2019	316,089	53,449	369,538
2020	316,089	49,451	365,540
2021	321,943	45,914	367,857
2022	327,796	42,687	370,483
2023 - 2027	1,662,395	171,531	1,833,926
2028 - 2032	1,826,290	73,716	1,900,006
	<u>\$ 5,086,691</u>	<u>\$ 492,793</u>	<u>\$ 5,579,484</u>

*Net of interest credits and refunding savings

In addition to principal and interest, the District pays \$48,845 annually in administration/servicing fees, which are reduced in 2030, 2031 and 2032 to \$36,634, \$24,423 and \$12,211, respectively.

There are a number of covenants and restrictions contained in the note payable agreement, including a provision that a reserve equal to three months of operations and maintenance expenses be maintained by the District. The District was in compliance with all covenants and restrictions as of December 31, 2017 and 2016.

8. NET POSITION

The District has net positions consisting of three components - invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, plus unspent debt proceeds, and reduced by outstanding balances of bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017 and 2016, the District had an investment in capital assets, net of related debt calculated as follows:

	<u>2017</u>	<u>2016</u>
Invested in capital assets, net of accumulated depreciation	<u>\$ 9,253,242</u>	<u>\$ 8,443,709</u>

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

8. NET POSITION (CONTINUED)

Restricted assets include net position that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2017 and 2016 as follows:

Restricted for emergency reserves (see Note 16)	<u>\$ 75,700</u>	<u>\$ 73,900</u>
Restricted for note payable requirements:		
Restricted cash - operational and maintenance (see Note 3)	<u>\$ 346,700</u>	<u>\$ 345,400</u>

Unrestricted net position consist of net assets that do not meet the definition of invested in capital assets or restricted.

LFMSDD has net positions consisting of three components - invested in capital assets; restricted; and unrestricted.

Invested in capital assets, net of accumulated depreciation. As of December 31, 2017 and 2016, LFMSDD had an investment in capital assets, net of accumulated depreciation as follows:

	<u>2017</u>	<u>2016</u>
Invested in capital assets, net of accumulated depreciation	<u>\$ 33,258,558</u>	<u>\$ 34,004,548</u>

Restricted net position for LFMSDD consist of amounts to be used for declared emergencies as required by TABOR. Restricted net position for LFMSDD as of December 31, 2017 and 2016 was \$29,400 and \$24,200, respectively (see Note 16).

Unrestricted net position consist of net assets that do not meet the definition of invested in capital assets or restricted.

9. COMMITMENTS

As of December 31, 2017 and 2016, the District had unexpended construction related contract commitments of approximately \$977,345 and \$1,244,451, respectively.

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FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

10. NATURAL RESOURCES CONSERVATION SERVICE GRANT

On April 8, 2016 the District received a grant from the U.S. Department of Agriculture Natural Resources Conservation Service ("NRCS"). The grant is intended to install emergency watershed protection measures to relieve hazards and damages created by the 2015 Colorado Flood. The District is eligible to request reimbursement once costs are incurred. The total grant award was \$904,800 for the period of April 8, 2016 through the end of the contract. As of December 31, 2016, the District had incurred costs totalling \$591,524 and had received reimbursement from NRCS totalling \$78,727. The project was completed in 2017, and the District received a total reimbursement from the NRCS of \$893,320, and incurred costs of \$1,176,530 to complete the project. The District was required to match 25% of the costs of construction and any cost overruns, totaling a minimum of \$260,000. As of December 31, 2017, the costs paid by the District as a match to the grant were \$283,210.

11. BOARD DESIGNATED CASH BALANCES

The District's board of directors has chosen to designate the unrestricted cash balance for specific future needs to reflect the expected future use of available resources. These designations are non-binding and subject to change.

Designated for capital outlay - Represents an amount reserved for future capital outlay.

Designated for renewal and replacement - Represents amounts to be used to secure financing for aging infrastructure within the existing system.

Designated for note payable and liabilities - Represents amounts needed in the future to repay note payable and other liabilities

Designated for operations - Represents amounts set aside for operational expenses as determined by the board of directors.

Designated for LFMSDD - Represents amounts designated to be used to fund construction and improvements of the treatment plant and interceptor sewer.

Cash balances designated by the board of directors are as follows:

	Balance 01/01/17	Additions/ Dispositions	Balance 12/31/17
Capital outlay	\$ 3,395,633	1,276,156	\$ 4,671,789
Renewal and replacement	1,878,622	21,128	1,899,750
Notes payable and liabilities	6,841,319	(277,979)	6,563,340
Operations	835,434	(68,405)	767,029
LFMSDD	<u>2,531,285</u>	<u>2,068,358</u>	<u>4,599,643</u>
 Total	 <u>\$ 15,482,293</u>	 <u>\$ 3,019,258</u>	 <u>\$ 18,501,551</u>

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

12. RETIREMENT PLAN

The District contributes to the Colorado County Officials and Employees Retirement Association ("CCOERA"), a cost-sharing, multiple employer defined contribution retirement plan administered by CCOERA. CCOERA provides retirement benefits for all full-time permanent employees who have completed at least one year of service. The District contributes an amount equal to five percent (5%) of each permanent full-time employee's gross salary. Each full-time employee must participate and contribute five percent (5%) of their gross salary. Benefits are 100% vested at the time of contribution. Contributions to the retirement plan for the year ended December 31, 2017 and 2016 was \$35,590 and \$32,036, respectively.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017 and 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, equipment breakdown and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

14. INTER-GOVERNMENTAL AGREEMENT

The District is party to an intergovernmental agreement with LFMSDD. The agreement obligates the District to fund its proportionate share of the cost of constructing and operating a regional treatment facility and interceptor sewer, which will increase the treatment capacity of the District to meet anticipated future needs. The District contributed \$375,000 and \$75,000 to LFMSDD for the years ended December 31, 2017 and 2016, respectively.

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FOUNTAIN SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

15. TAX, SPENDING AND DEBT LIMITATIONS

During the November 1992 general election, the voters of the State of Colorado passed an amendment to the Colorado State Constitution, Article X, Section 20, popularly referred to as "TABOR". TABOR imposes several limitations including revenue raising, spending abilities, and other specific requirements on the state and local governments.

In general, any increases in spending over a calculated base must be approved, and revenues received in excess of the defined spending limit are subject to refund unless retention is approved by voters. Property tax revenue is also subject to limitations under TABOR. The amendment also requires the establishment of an emergency reserve based upon defined calculations.

Prior to TABOR, sewer tap fees paid by customers were treated as contributions in aid of construction in fund equity. With the passing of TABOR, the appropriate treatment of tap fees was ambiguous. On May 7, 1996, an election was held whereby the voters in the District authorized the District to retain and spend revenues collected in 1993 and thereafter, which were in excess of the spending limits previously established by TABOR. Accordingly, tap fees have been classified as capital contributions.

TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

* * * * *

See independent auditor's report.

SUPPLEMENTARY INFORMATION

FOUNTAIN SANITATION DISTRICT
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENDITURES
FOUNTAIN SANITATION
BUDGET COMPARED TO ACTUAL
CASH BASIS
YEAR ENDED DECEMBER 31, 2017

Sources of Funds: (Revenues and receipts)	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Property taxes	\$ 907,189	\$ 906,830	\$ (359)
Interest income	5,000	146,355	141,355
Sewage charges	1,568,018	1,393,020	(174,998)
Plant investment fees	10,000	141,274	131,274
Specific ownership tax - auto	25,000	123,187	98,187
Miscellaneous income	250	18,482	18,232
Total funds available	\$ 2,515,457	\$ 2,729,148	\$ 213,691
Uses of funds: (Operating expenditures and disbursements)			
Sewage collection and transmission:			
Personnel services	\$ 136,400	148,946	(12,546)
Supplies	12,509	4,833	7,676
Repairs and maintenance	46,022	16,154	29,868
Purchased services	27,660	12,248	15,412
Utilities	5,538	2,915	2,623
System renewal project	217,620	188,141	29,479
Capital outlay	52,350	56,609	(4,259)
Total sewage collection and transmission	498,099	429,846	68,253
Sewer treatment plant:			
Personnel services	277,634	262,302	15,332
Supplies	29,175	12,828	16,347
Repairs and maintenance	47,226	28,811	18,415
Purchased services	142,477	65,123	77,354
Utilities	186,718	82,627	104,091
System renewal project	437,285	-	437,285
Capital outlay	214,000	296,283	(82,283)
Total sewer treatment plant	1,334,515	747,974	586,541

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENDITURES
FOUNTAIN SANITATION
BUDGET COMPARED TO ACTUAL
CASH BASIS
YEAR ENDED DECEMBER 31, 2017

Uses of funds: (continued)	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Sewage administration:			
Personnel services	\$ 300,405	272,640	27,765
Supplies	21,891	11,598	10,293
Repairs and maintenance	5,304	5,890	(586)
Purchased services	171,072	92,869	78,203
Utilities	19,627	14,737	4,890
Fixed charges	131,492	117,856	13,636
System renewal project	18,052	-	18,052
Capital outlay	15,000	12,139	2,861
Total sewage administration	682,843	527,729	155,114
Total expenditures	\$ 2,515,457	\$ 1,705,549	\$ 809,908
Excess revenues over expenditures	\$ -	\$ 1,023,599	\$ 1,023,599

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF REVENUES
AND EXPENSES - FOUNTAIN SANITATION
YEAR ENDED DECEMBER 31, 2017

The accompanying Supplementary Schedule of Revenues and Expenditures - Budget Compared to Actual for Fountain Sanitation on pages 27 to 28 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of differences in revenues and expenditures for the year ended December 31, 2017 is presented below.

Total revenue per financial statements (operating and non-operating revenue)	\$ 2,741,673
<hr/>	
Add:	
Revenue accruals and non-cash adjustments at December 31, 2016	453,948
<hr/>	
Less:	
Revenue accruals and non-cash adjustments at December 31, 2017	(466,473)
<hr/>	
Total actual revenue and receipts per the budget	<u>\$ 2,729,148</u>
<hr/>	
Total expenses and capital expenditures per financial statements	\$ 1,461,136
<hr/>	
Add:	
Expense and capital expenditure accruals and non-cash adjustments at December 31, 2016	661,163
Capital expenditures	553,172
<hr/>	
Less:	
Expense and capital expenditure accruals and non-cash adjustments at December 31, 2017	(638,392)
Depreciation and amortization expense	(331,530)
<hr/>	
Total actual expenses and capital expenditures per the budget	<u>\$ 1,705,549</u>

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENDITURES
JIMMY CAMP CREEK ENTERPRISE
BUDGET COMPARED TO ACTUAL
CASH BASIS
YEAR ENDED DECEMBER 31, 2017

Sources of Funds: (Revenues and receipts)	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Interest income	\$ 7,500	\$ 44,349	\$ 36,849
Sewage charges	2,194,698	2,468,485	273,787
IGA contract service revenue - LFMSDD	447,358	492,451	45,093
Plant investment fees	1,050,000	1,214,063	164,063
Miscellaneous income	250	553	303
Transfer to/from reserves	503,684	-	(503,684)
Total funds available	\$ 4,203,490	\$ 4,219,901	\$ 16,411
Uses of funds: (Operating expenditures and disbursements)			
Sewage collection and transmission:			
Personnel services	\$ 312,170	258,738	\$ 53,432
Supplies	22,235	8,592	13,643
Repairs and maintenance	81,817	28,718	53,099
Purchased services	49,171	8,826	40,345
Utilities	9,845	5,183	4,662
System renewal project	386,880	4,851	382,029
Capital outlay and contributions	41,521	25,502	16,019
Total sewage collection and transmission	903,639	340,410	563,229
Sewer treatment plant:			
Personnel services	1,123,218	969,243	153,975
Supplies	16,412	7,208	9,204
Repairs and maintenance	26,565	16,207	10,358
Purchased services	80,145	36,668	43,477
Utilities	105,029	46,478	58,551
Capital outlay	1,500,000	375,000	1,125,000
Total sewer treatment plant	2,851,369	1,450,804	1,400,565

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENDITURES
JIMMY CAMP CREEK ENTERPRISE
BUDGET COMPARED TO ACTUAL
CASH BASIS
YEAR ENDED DECEMBER 31, 2017

Uses of funds: (continued)	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Sewage administration:			
Personnel services	\$ 34,361	16,193	\$ 18,168
Fixed charges	414,121	420,316	(6,195)
Total sewage administration	448,482	436,509	11,973
Total expenditures	\$ 4,203,490	\$ 2,227,723	\$ 1,975,767
Excess revenues over expenditures	\$ -	\$ 1,992,178	\$ 1,992,178

See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF REVENUES
AND EXPENSES - JIMMY CAMP CREEK ENTERPRISE
YEAR ENDED DECEMBER 31, 2017

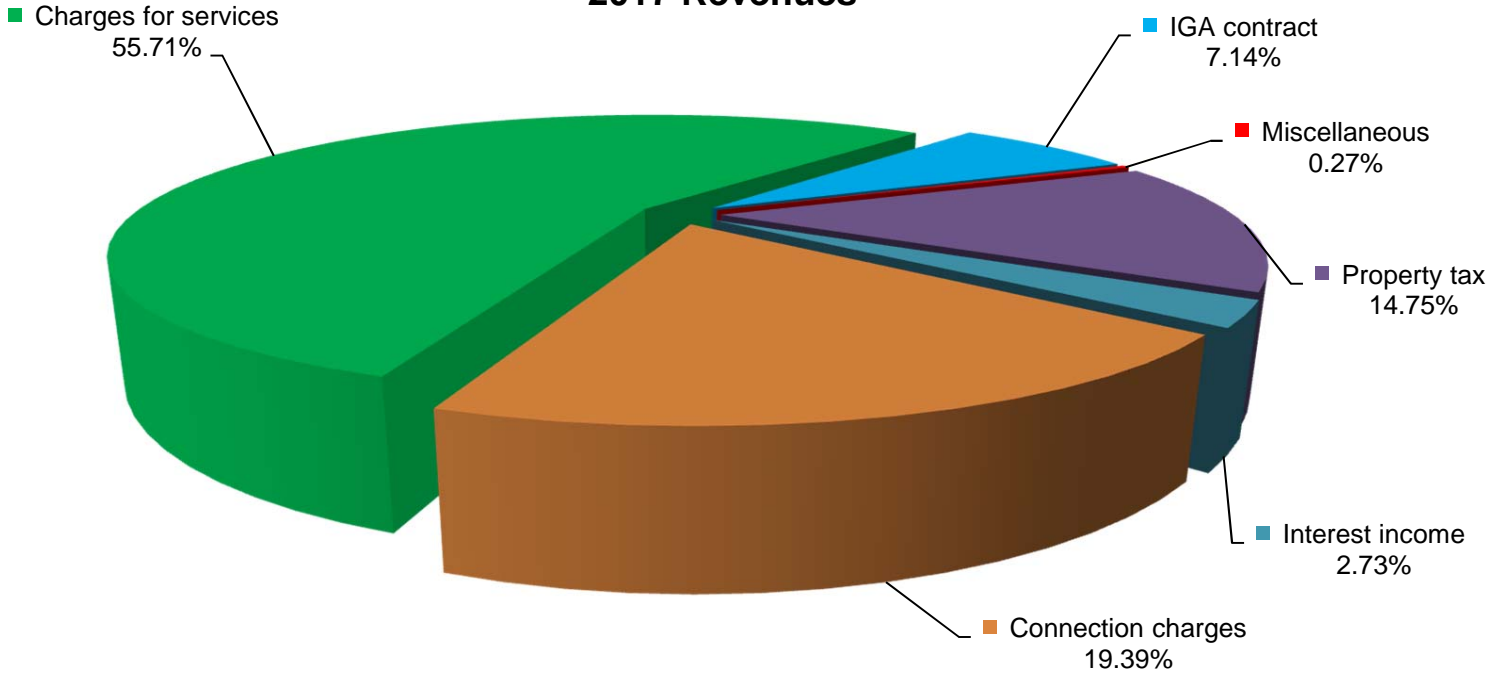
The accompanying Supplementary Schedule of Revenues and Expenditures - Budget Compared to Actual for Jimmy Camp Creek Enterprise on pages 31 to 32 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of differences in revenues and expenditures for the year ended December 31, 2017 is presented below.

Total revenue per financial statements (operating and non-operating revenue)	\$ 4,247,451
Add:	
Revenue accruals and non-cash adjustments at December 31, 2016	547,428
Less:	
Revenue accruals and non-cash adjustments at December 31, 2017	<u>(574,978)</u>
Total actual revenue and receipts per the budget	<u>\$ 4,219,901</u>
Total expenses and capital expenditures per financial statements	
	\$ 1,983,007
Add:	
Principal payment on bonds	310,237
Amortization on bond premium	15,449
Expense and capital expenditure accruals and non-cash adjustments at December 31, 2016	185,408
Capital expenditures	30,353
Less:	
Expense and capital expenditure accruals and non-cash adjustments at December 31, 2017	<u>(173,390)</u>
Depreciation and amortization expense	<u>(123,341)</u>
Total actual expenses and capital expenditures per the budget	<u>\$ 2,227,723</u>

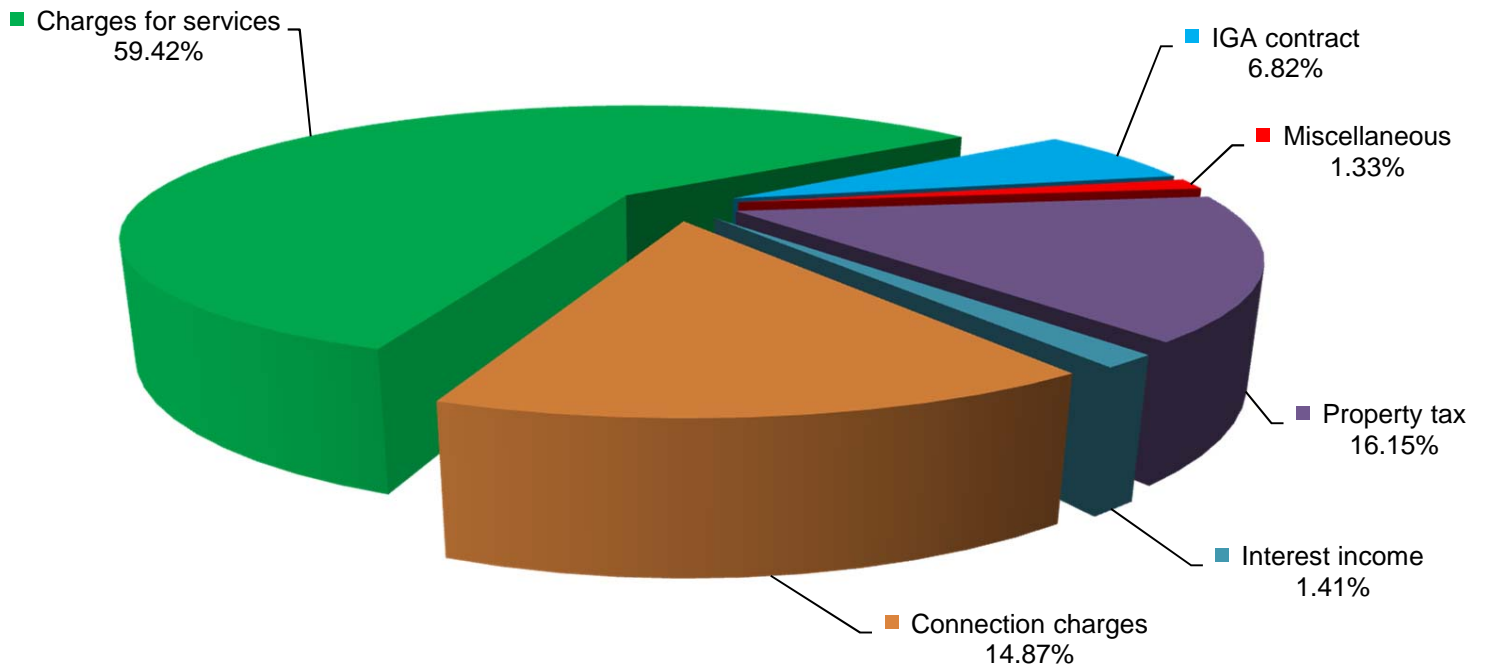
See independent auditor's report.

**FOUNTAIN SANITATION DISTRICT
SCHEDULE I
REVENUES BY CATEGORY
YEARS ENDED DECEMBER 31, 2017 AND 2016**

2017 Revenues



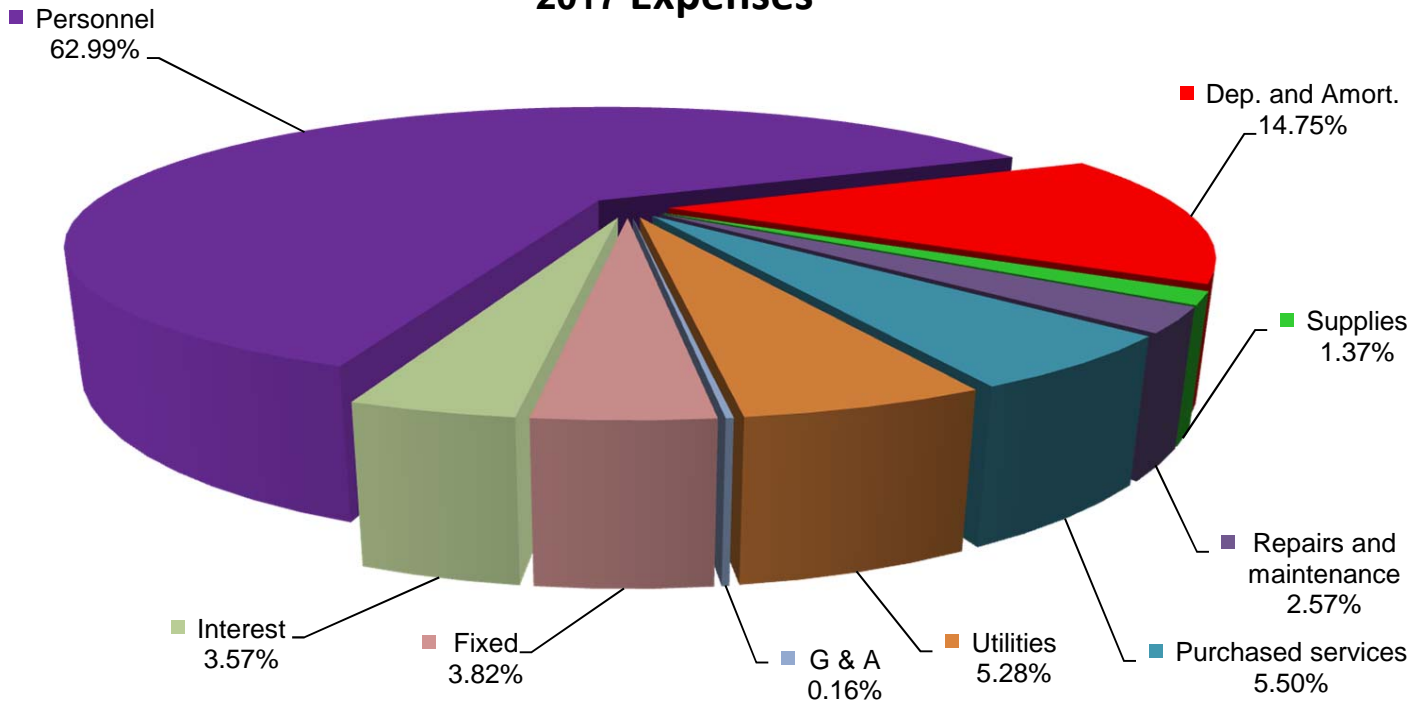
2016 Revenues



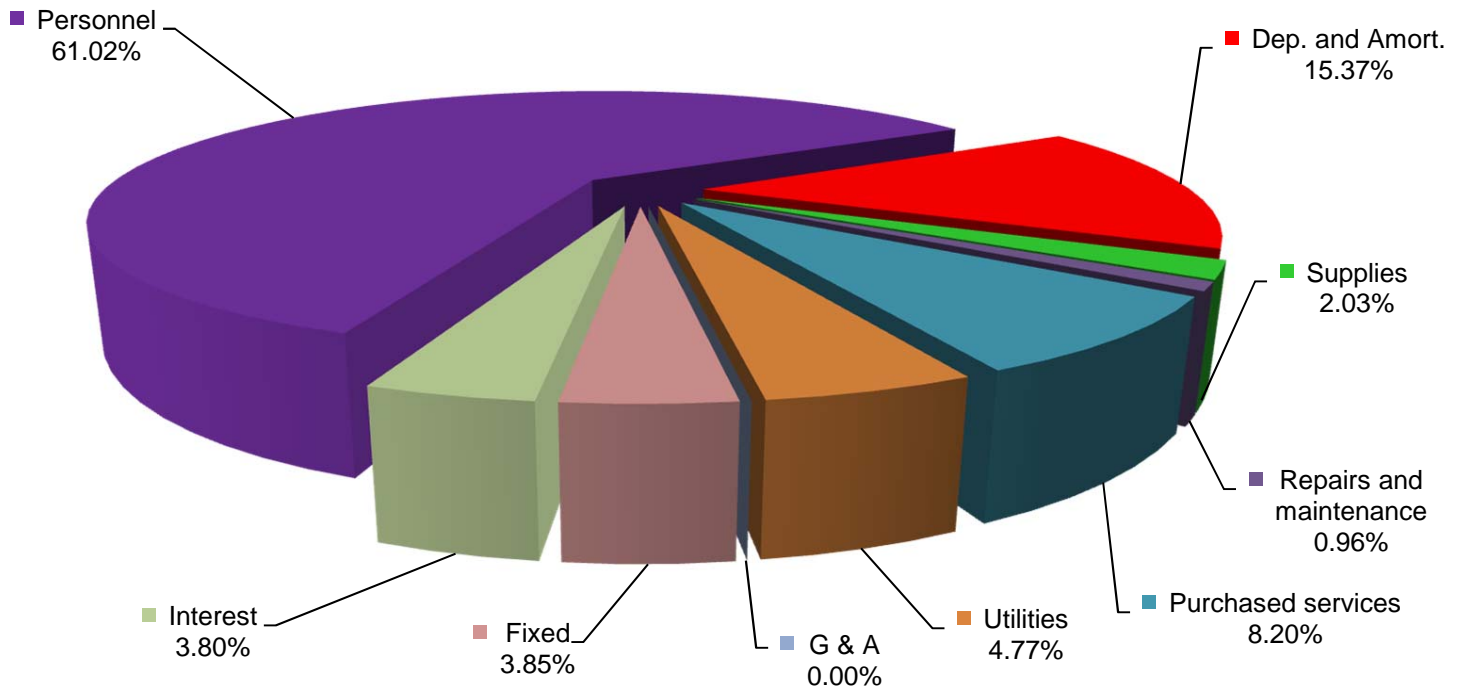
See independent auditor's report.

**FOUNTAIN SANITATION DISTRICT
SCHEDULE II
EXPENSES BY CATEGORY
YEARS ENDED DECEMBER 31, 2017 AND 2016**

2017 Expenses



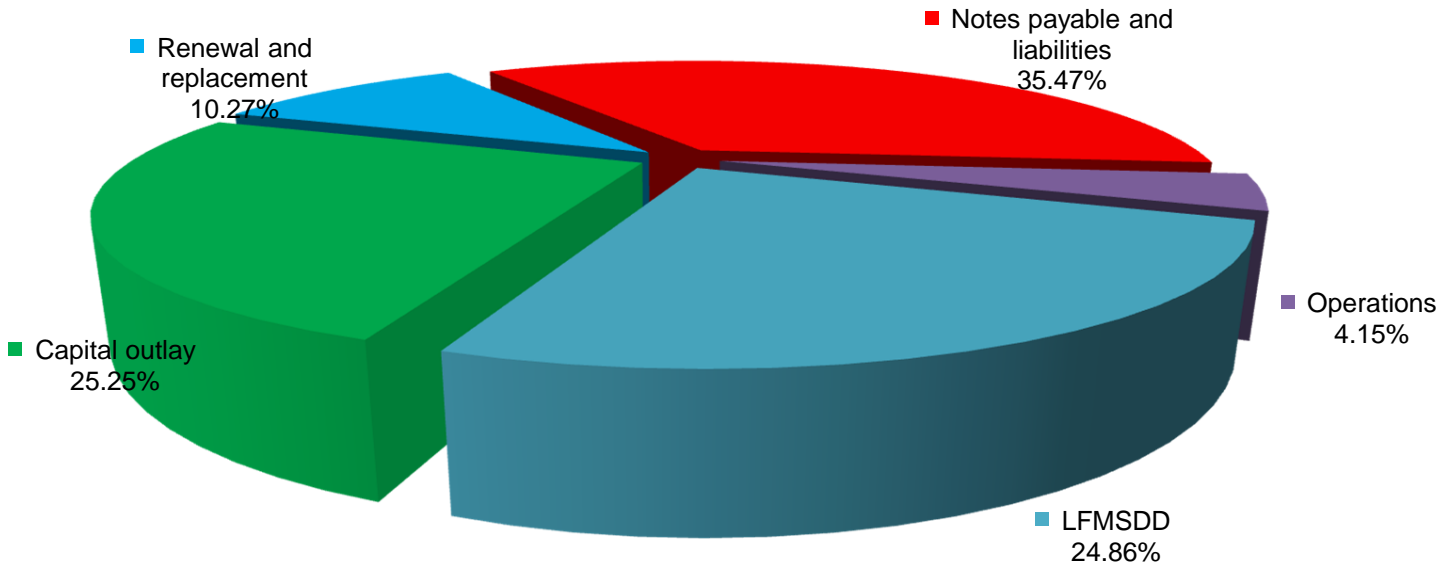
2016 Expenses



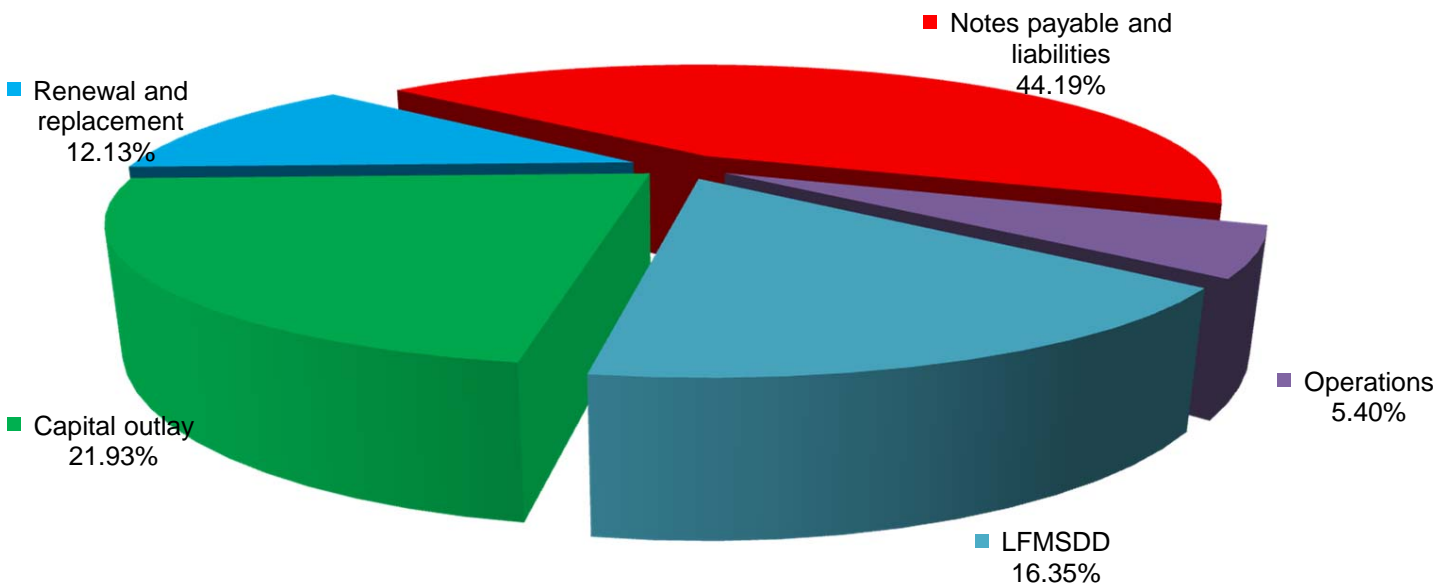
See independent auditor's report.

FOUNTAIN SANITATION DISTRICT
SCHEDULE III
CASH BALANCES DESIGNATED BY BOARD OF DIRECTORS
YEARS ENDED DECEMBER 31, 2017 AND 2016

2017 Cash Balances



2016 Cash Balances



See independent auditor's report.