

TELLER COUNTY WATER AND SANITATION DISTRICT #1

ANNUAL FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

AND

SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2017

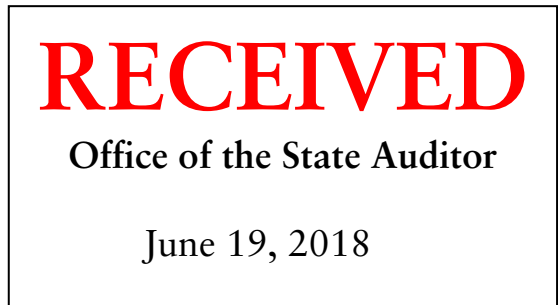


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INDEPENDENT AUDITORS' REPORT

Board of Directors
Teller County Water and Sanitation District #1
Woodland Park, Colorado

We have audited the accompanying financial statements of Teller County Water and Sanitation District #1 (District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT - CONTINUED

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teller County Water and Sanitation District #1 as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information consisting of the schedule of revenue, expense and changes in fund net position - proprietary fund, budgetary (non-GAAP basis) and actual, and the schedule of expense - proprietary fund, budgetary (non-GAAP basis) and actual, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Osborne, Parsons & Arachee LLP

Colorado Springs, Colorado
June 14, 2018

MANAGEMENTS' DISCUSSION AND ANALYSIS

**Teller County Water and Sanitation District #1
Management's Discussion and Analysis
Year Ended December 31, 2017**

This management's discussion and analysis (MD&A) of the Teller County Water and Sanitation District #1 (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2017. The intent of this MD&A is to look at the District's financial performance as a whole. The MD&A should be read in conjunction with the District's financial statements with notes, to enhance understanding of the District's financial performance. The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB).

The District is a special district organized under the Colorado Statutes to provide water and sewer services to property owners and residents located within the District. The District is a primary governmental agency.

Overview of the Financial Statements

The MD&A is intended to serve as an introduction to the District's financial statements, which are comprised of:

- Financial Statements
 - Statement of fund net position - proprietary fund
 - Statement of revenue, expense and changes in fund net position - proprietary fund
 - Statement of cash flows - proprietary fund
- Notes to the financial statements
 - Summary of significant accounting policies and notes to the financial statements
- Supplementary information
 - Schedule of revenue, expense, and changes in fund net position - proprietary fund - budgetary (non-GAAP basis) and actual
 - Schedule of expense - proprietary fund, budgetary (non-GAAP basis) and actual

Current Financial Issues

The District receives revenue from two primary sources:

- The sale of water and sewer services to the owners and residents whose property resides within the water district
- Collection of loan repayment fee

Secondary sources of revenue are:

- Late fees
- Tap fees

Major disbursements are the normal operating expenses of delivering water to the residents and the semi-annual debt service payments. These disbursements are detailed in the financial statements.

**Teller County Water and Sanitation District #1
Management's Discussion and Analysis
Year Ended December 31, 2017**

Capital Improvements

In November 2009, the District provided information regarding the deficiencies in the water system and steps the Board of Directors were taking to improve the system. A loan was secured from the State of Colorado Drinking Water Revolving Fund. The Board solicited bids for the work on restoring the storage tank, and selected a highly qualified construction company specializing in water and sanitary systems. The contractor completed the work for replacing the tank in January 2012, at which time the storage tank was back in service.

The tank project was Phase 1 of a two-phase project. Phase 2 focused on critical upgrades and improvements to the District's aging infrastructure (new and upgraded water mains, etc.). Global Underground completed Phase 2, specifically replacing/upgrading critical water mains. The entire loan fund was used to complete Phase 1 and 2.

The Board worked with the State on rate increases that were required to meet loan repayment criteria as established by the State. Rate increases went into effect February 2012. The total approved loan is \$1,718,000, with a 20-year repayment schedule that started in May 2012.

Additionally, budgeting for capital expenditures for 2018 was set at \$46,000. This was for GAC filter replacements, hydrant replacements and testing, and new meter replacement escrows.

STATEMENT OF FUND NET POSITION

The statement of fund net position conveys the financial health of the District and includes all assets and liabilities, both financial and capital. The District uses the accrual basis of accounting.

The comparative statements of net positions are as follows:

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Assets			
Current assets	\$ 230,622	\$ 170,432	\$ 60,190
Capital assets	1,777,704	1,823,907	(46,203)
Total assets	<u>\$ 2,008,326</u>	<u>\$ 1,994,339</u>	<u>\$ 13,987</u>
Liabilities			
Current liabilities	\$ 86,349	\$ 86,130	\$ 219
Long-term liabilities	1,192,708	1,272,303	(79,595)
Total liabilities	<u>1,279,057</u>	<u>1,358,433</u>	<u>(79,376)</u>
Net position			
Net investment in capital assets	505,401	473,577	31,824
Restricted	68,000	68,000	-
Unrestricted	155,868	94,329	61,539
Total net position	<u>729,269</u>	<u>635,906</u>	<u>93,363</u>
Total liabilities and net position	<u>\$ 2,008,326</u>	<u>\$ 1,994,339</u>	<u>\$ 13,987</u>

**Teller County Water and Sanitation District #1
Management's Discussion and Analysis
Year Ended December 31, 2017**

Assets

Current assets increased by approximately \$60,000, due to rate and loan repayment increases during 2017.

Net capital assets decreased by approximately \$46,000, related to current year depreciation.

Liabilities

Long-term liabilities decreased by approximately \$80,000 as a result of reductions for the current portion of long-term debt.

Net Position

Net investment in capital assets increased by approximately \$32,000, as a result of the current year depreciation of plant and equipment, and payments on long-term debt.

Total net position increased by approximately \$93,000, due to current year operating and non-operating income.

STATEMENT OF REVENUE, EXPENDITURES/EXPENSE AND CHANGES IN FUND NET POSITION

Comparative statements and comments relating to significant changes follow:

	2017	2016	Net Income Increase (Decrease)
Operating revenue	\$ 271,420	\$ 212,840	\$ 58,580
Operating expenditures/expense	298,937	317,507	18,570
Operating loss	(27,517)	(104,667)	77,150
 Non-operating revenue	 120,880	 215,301	 (94,421)
 Change in net position	 \$ 93,363	 \$ 110,634	 \$ (17,271)

Operating Loss

Operating revenues increased by approximately \$59,000, and expenses decreased by approximately \$19,000, resulting in a net decrease in operating losses of approximately \$77,000.

Non-Operating Revenue

Non-operating revenue increased by approximately \$94,000, related to capital expense reimbursements received for EDB mitigation.

**Teller County Water and Sanitation District #1
Management's Discussion and Analysis
Year Ended December 31, 2017**

BUDGETED AMOUNTS

An analysis of budgeted amounts follows:

	<u>Budgeted Amounts</u>		<u>Increase (Decrease)</u>
	<u>Original</u>	<u>Final</u>	
Revenue	\$ 421,233	\$ 421,233	\$ -
Expenditures/expense	412,299	412,299	-
Change in net position	<u>\$ 8,934</u>	<u>\$ 8,934</u>	<u>\$ -</u>

There were no amendments made to the original budget.

SCHEDULE OF REVENUE AND EXPENDITURES/EXPENSE AND CHANGES IN FUND NET POSITION – BUDGET (NON-GAAP BASIS) AND ACTUAL

A comparison of the final budget and actual income, budgetary basis, statement follows:

	<u>Analysis of Budget to Actual Income Statement</u>		
	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenue			
Operating and non-operating revenue	\$ 421,233	\$ 402,113	\$ (19,120)
Total revenue	<u>421,233</u>	<u>402,113</u>	<u>(19,120)</u>
Expense/expenditure			
Cost of sales	154,431	136,318	18,113
General and administrative	109,367	108,004	1,363
Capital projects	31,000	8,412	22,588
Non-operating	117,501	87,840	29,661
Total expense/expenditure	<u>412,299</u>	<u>340,574</u>	<u>71,725</u>
Change in net position non-GAAP basis	<u>\$ 8,934</u>	61,539	<u>\$ 52,605</u>
GAAP Adjustments			
Debt service payments - principle		78,027	
Capital projects		8,412	
Depreciation		<u>(54,615)</u>	
Change in net position GAAP basis		<u>\$ 93,363</u>	

**Teller County Water and Sanitation District #1
Management's Discussion and Analysis
Year Ended December 31, 2017**

SCHEDULE OF REVENUE AND EXPENDITURES/EXPENSE AND CHANGES IN FUND NET POSITION – BUDGET (NON-GAAP BASIS) AND ACTUAL - CONTINUED

Revenue

Operating and non-operating revenues were below budget by approximately \$19,000, due primarily to EDB expense recovery being less than originally anticipated.

Expense / Expenditure

The District's cost of sales was lower than budgeted by approximately \$18,000, due to decreased system repairs and maintenance costs and overall utilities costs.

The District's expenditure for capital projects was lower than budgeted by approximately \$23,000, due to timing of project completion, delays, and not beginning projects that were planned for the year.

The District's non-operating expense was lower than budgeted by approximately \$30,000, due to timing of EDB expenses submitted for reimbursement.

MANAGEMENT OF THE DISTRICT

An elected Board of Directors manages the District. The Board has contracted with two outside vendors to perform specific duties. One is a Class C Water Treatment Plant Operator responsible for the technical operations of the District. The other is a bookkeeping firm who handles the administrative duties for the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the District's finances and to show the accountability for the money entrusted to it for the operation of the water delivery system. If you have questions about this report or need additional information, contact the District at P.O. Box 578, Woodland Park, CO 80866.

FINANCIAL STATEMENTS

**TELLER COUNTY WATER AND SANITATION DISTRICT #1
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2017**

ASSETS

	Water/Sewer Fund
Current assets	
Cash	\$ 140,680
Cash - emergency reserve	68,000
Total cash	208,680
Accounts receivable - trade	7,499
Accounts receivable - other	9,813
Prepaid expense	4,630
Total current assets	230,622
 Plant and equipment	
Plant and equipment	3,054,099
Less: Accumulated depreciation	(1,276,395)
Total plant and equipment	1,777,704
Total assets	\$ 2,008,326

LIABILITIES AND NET POSITION

Current liabilities	
Accounts payable - trade	\$ 2,513
Interest payable	4,241
Current portion of long-term debt	79,595
Total current liabilities	86,349
 Noncurrent liabilities	
Loan payable	1,192,708
Total noncurrent liabilities	1,192,708
 Net position	
Net investment in capital assets	505,401
Restricted	68,000
Unrestricted	155,868
Total net position	729,269
Total liabilities and net position	\$ 2,008,326

See accompanying notes to the financial statements

TELLER COUNTY WATER AND SANITATION DISTRICT #1
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2017

	Water/Sewer Fund
Operating revenue	
Water sales	\$ 189,192
Sewer sales	79,648
Late fees	2,580
Total operating revenue	271,420
Operating expense	
Cost of sales	136,318
General and administrative	108,004
Depreciation	54,615
Total operating expense	298,937
Operating loss	(27,517)
Non-operating revenue (expense)	
Interest income	236
Other income	2,519
Loan repayment fee	105,472
EDB mitigation expense recovery	22,466
EDB mitigation expense	(9,813)
Total non-operating revenue	120,880
Change in net position	93,363
Net position	
Beginning of year	635,906
End of year	\$ 729,269

See accompanying notes to the financial statements

TELLER COUNTY WATER AND SANITATION DISTRICT #1
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2017

	Water/Sewer Fund
Cash flows from operating activities	
Cash received from customers and users	\$ 269,329
Cash paid to suppliers and lenders	(245,834)
Net cash provided by operating activities	23,495
Cash flows from capital and related financing activities	
Purchase of capital assets	(8,412)
Net cash used by capital and related financing activities	(8,412)
Cash flows from non-operating activities	
Interest received	236
Loan repayment fee	105,472
Other income	2,519
Cash paid to reduce debt	(78,027)
EDB mitigation expense recovery	23,266
EDB mitigation expense	(9,813)
Net cash provided by investing activities	43,653
Change in cash	58,736
Cash and cash equivalents	
Beginning of year	149,944
End of year	\$ 208,680
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (27,517)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Non cash expense	
Depreciation	54,615
Changes in	
Accounts receivable - trade	(2,091)
Prepaid expense	(163)
Accounts payable - trade	(1,089)
Interest payable	(260)
Total adjustments	51,012
Net cash provided by operations	\$ 23,495

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Teller County Water and Sanitation District #1 (District) provides water and sewer services to residents within its boundaries in Teller County, Colorado.

Financial reporting entity - The District is a special district governed by an elected five-member board. The District is operated and accounted for as an enterprise fund and has no component units for which either discrete or blended presentation is required. Operations are funded primarily by water sales and sewer service sales within the district service area. Non-operating revenues are derived from activities that are not included in the operating activities of the district.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

The District's annual financial reports include the accounts and funds of all District operations presented in accordance with GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*.

Government-wide and fund financial statements

Government-wide financial statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow.

Fund financial statements - The accounts of the District are organized on the basis of funds. Each fund is considered an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other assets together with all related liabilities, obligations, reserves and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The District used the Proprietary Fund to account for all financial resources.

Basis of accounting - Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied. The District applies the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budget accounting - Budgets are prepared in accordance with the requirements of Colorado Revised Statutes and accordingly include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions, and capital expenditures.

Budgets - The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- A. State law for all funds requires budgets. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund, or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

Net position classifications are as follows:

Net investment in capital assets – this classification consists of capital assets net of accumulated depreciation, reduced by any outstanding debt attributed to the acquisition, construction, or improvement of the capital assets.

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

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

In circumstances where an expense is incurred for a purpose for which amounts are available in multiple net position classifications, net position is reduced in the order of restricted and unrestricted.

TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable - Utility service charges are recognized when earned. Delinquent accounts are certified as a special assessment lien against the property billed; therefore, no allowance for doubtful accounts is considered necessary.

Capital assets - Capital assets are reported in the proprietary fund financial statements. Capital assets are defined as assets costing more than \$1,000 and having an estimated life in excess of one year. Such assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 - 40 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Change in accounting estimate - The District's policy is to periodically review the estimated useful lives and salvage value of its property and equipment. There were no changes to the estimated economic lives of assets during the fiscal year ending December 31, 2017.

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

Definition of cash - For the purpose of the statement of cash flows, cash is defined as all cash on hand, demand accounts, and money market accounts maturing within three months or less.

NOTE 1 – CASH

Cash consists of demand deposits in the amount of \$208,680 as of December 31, 2017.

Deposits and credit risk - The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the depository institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC), or collateralized by PDPA.

State law limits investments in money market funds to funds that are registered as an investment company; the fund investment policies must seek to maintain a constant price and no sales fee can be added to the purchase or redemption price. The District has an investment policy, which further limits the investments to money markets, FDIC Insured certificates of deposit, and U.S. Government Treasury/Agency notes and bonds. As of December 31, 2017, the District had no investments.

Custodial credit risk - In the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk parallels Colorado Statutes as described above.

TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – RECEIVABLES

Accounts receivable – trade, consists of payments due from customers for utility services provided.

Accounts receivable – other, due from the United States Forest Service for reimbursement of expenses incurred regarding ethylene dibromide testing and mitigation of drinking water.

NOTE 3 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions and Adjustments</u>	<u>Ending Balance</u>
Proprietary fund				
Capital assets being depreciated				
Building	\$ 23,438	\$ -	\$ -	\$ 23,438
Furniture, fixtures and equipment	14,405	2,016	-	16,421
Water system meter	10,190	-	-	10,190
Water plant and pipe	2,798,107	6,396	-	2,804,503
Sewer plant and pipe	199,547	-	-	199,547
Total capital assets being depreciated	<u>3,045,687</u>	<u>8,412</u>	<u>-</u>	<u>3,054,099</u>
Less accumulated depreciation for				
Building	(11,428)	(586)	-	(12,014)
Furniture, fixtures and equipment	(14,405)	(192)	-	(14,597)
Water system meter	(2,548)	(1,019)	-	(3,567)
Water plant	(993,853)	(52,818)	-	(1,046,671)
Sewer plant	(199,546)	-	-	(199,546)
Total accumulated depreciation	<u>(1,221,780)</u>	<u>(54,615)</u>	<u>-</u>	<u>(1,276,395)</u>
Proprietary capital assets, net	<u>\$ 1,823,907</u>	<u>\$ (46,203)</u>	<u>\$ -</u>	<u>\$ 1,777,704</u>

Depreciation expense for 2017 was \$54,615.

TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

On November 10, 2010, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA). The loan proceeds are being used to pay a portion of the costs of a specific water project of the District. Estimated cost of the project is \$1,718,000.

Total loan funds in the amount of \$1,718,000 were disbursed to Wells Fargo Bank who is acting as the loan funds trustee. The loan is for 20 years and bears interest at 2% annually. As of December 31, 2017, the District has drawn down all available funds. The District has pledged and granted a lien on the net revenue, as defined in the loan agreement, for the punctual payment of the principal and the interest on the loan. Disbursements from the loan were made to the District after costs had been incurred and an application for reimbursement was made to CWRPDA. Interest expense for 2017 was \$26,359.

Annual debt service requirements to maturity for the loan are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 79,595	\$ 25,050	\$ 104,645
2019	81,195	23,450	104,645
2020	82,827	21,818	104,645
2021	84,492	20,153	104,645
2022	86,190	18,455	104,645
2023 to 2027	457,645	65,582	523,227
2028 to 2031	400,359	18,225	418,584
Principle balance, end of year	1,272,303	<u>\$ 192,733</u>	<u>\$ 1,465,036</u>
Less current portion	<u>(79,595)</u>		
Long-term portion	<u>\$ 1,192,708</u>		

For the year ending December 31, 2017, a summary of the loan activity is as follows:

	Beginning Balance	Additions	Payments	Ending Balance
CWRPDA Loan 2010	<u>\$ 1,350,330</u>	<u>\$ -</u>	<u>\$ (78,027)</u>	<u>\$ 1,272,303</u>

As of December 31, 2017, the District was in material compliance with all debt covenants.

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which it carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**TELLER COUNTY WATER AND SANITATION DISTRICT #1
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

The District is an enterprise fund, which is defined as a government owned businesses, authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined are excluded from the provisions of TABOR. District management believes its operations qualify for this exclusion.

NOTE 7 – UNASSERTED CLAIMS AND ASSESSMENTS

The District is party to a certain agreement with the City of Woodland Park, renewed annually, under which the District is to deliver water to the City.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 14, 2018, the date on which the financial statements were available to be released.

SUPPLEMENTARY INFORMATION

**TELLER COUNTY WATER AND SANITATION DISTRICT #1
SCHEDULE OF REVENUE, EXPENSE AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND, BUDGETARY (NON-GAAP BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2017**

	<u>Budget</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Water sales	\$ 192,234	\$ 192,234	\$ 189,192	\$ (3,042)
Sewer sales	79,315	79,315	79,648	333
Late fees	3,290	3,290	2,580	(710)
Miscellaneous	1,560	1,560	2,519	959
Interest income	72	72	236	164
EDB expense recovery	39,474	39,474	22,466	(17,008)
Loan repayment fee	105,288	105,288	105,472	184
Total revenue	<u>421,233</u>	<u>421,233</u>	<u>402,113</u>	<u>(19,120)</u>
Expense/expenditure				
Cost of sales	154,431	154,431	136,318	18,113
General and administrative, net of debt service	82,749	82,749	81,646	1,103
Capital projects	31,000	31,000	8,412	22,588
Non-operating	39,474	39,474	9,813	29,661
Debt service				
Principal	78,027	78,027	78,027	-
Interest expense	26,618	26,618	26,358	260
Total expense/expenditure	<u>412,299</u>	<u>412,299</u>	<u>340,574</u>	<u>71,725</u>
Change in net position				
Non-GAAP basis	<u>\$ 8,934</u>	<u>\$ 8,934</u>	61,539	<u>\$ 52,605</u>
GAAP adjustments				
Debt service payments - principle			78,027	
Capital projects			8,412	
Depreciation			<u>(54,615)</u>	
Change in net position				
GAAP basis			<u>\$ 93,363</u>	

**TELLER COUNTY WATER AND SANITATION DISTRICT #1
SCHEDULE OF EXPENSE - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2017**

	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Operating expense			
Cost of sales			
Utilities	\$ 10,836	\$ 6,999	\$ 3,837
System repair/maintenance	35,591	21,607	13,984
Sewer disposal	79,678	81,310	(1,632)
System operator	26,465	24,640	1,825
Water testing	1,604	1,429	175
Regulatory costs	257	333	(76)
Total cost of sales	<u>154,431</u>	<u>136,318</u>	<u>18,113</u>
General and administrative			
Advertising/printing/postage	144	66	78
Accounting	7,631	6,750	881
Directors compensation	6,000	5,600	400
Dues/subscriptions	744	1,138	(394)
Insurance property/liability	5,371	4,467	904
Legal	3,000	1,626	1,374
Offices services	52,970	55,124	(2,154)
Trash removal	276	275	1
Storage	478	778	(300)
Other general and administrative	6,135	5,822	313
Debt service			
Loan principal	78,027	78,027	-
Interest expense	26,618	26,358	260
Total general and administrative	<u>187,394</u>	<u>186,031</u>	<u>1,363</u>
Capital projects	<u>31,000</u>	<u>8,412</u>	<u>22,588</u>
Non-operating expense			
EDB mitigation expense	39,474	9,813	29,661
Total non-operating expense	<u>39,474</u>	<u>9,813</u>	<u>29,661</u>
Total expense	<u><u>\$ 412,299</u></u>	<u><u>\$ 340,574</u></u>	<u><u>\$ 71,725</u></u>