

**MT. WERNER WATER AND
SANITATION DISTRICT**

Financial Statements

December 31, 2018

MT. WERNER WATER AND SANITATION DISTRICT

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Independent Auditor's Report

Board of Directors
Mt. Werner Water and Sanitation District
Steamboat Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Mt. Werner Water and Sanitation District (the District), as of and for the year ended December 31, 2018, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mt. Werner Water and Sanitation District as of December 31, 2018, and the respective changes in financial position, and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2018. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3-7 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 to be an essential part of the 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 Enterprise Fund schedule of revenues, expenditures and changes in fund balance – budget and actual on pages 18-19 is presented for purpose 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 the basic financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Catterson + Company, P.C.

Steamboat Springs, Colorado
March 15, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

The intent of management’s discussion and analysis is to provide an easy-to-read discussion of the financial condition of the Mount Werner Water and Sanitation District (the District) for the year ended December 31, 2018. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE DISTRICT’S OPERATIONS AND ECONOMIC FACTORS

The District was formed in 1965 to provide water and sanitation services for the newly developing Steamboat Ski Area and Resort; it is organized as a special district pursuant to state statute and is a political subdivision of the State of Colorado. An elected 5-member board of directors governs the District.

The District owns and operates the Fish Creek Filtration Plant and supplies potable water to its customers in the resort area of Steamboat Springs – an area of approximately four square miles which includes all properties generally south of Fish Creek and within the City limits. Through an intergovernmental agreement, the District also supplies potable water to the City of Steamboat Springs. The District’s wastewater is treated in a regional wastewater treatment facility owned by the City of Steamboat Springs. The District owns and maintains approximately 57 miles of sewer mains and 57 miles of water mains. The District and the City of Steamboat Springs hold the most senior water rights in Fish Creek, the principal raw water supply for the Fish Creek Filtration Plant. In 1996, the District doubled the capacity of the Fish Creek Reservoir, owned by the City of Steamboat Springs, to secure water storage in that facility.

District revenues come from three major sources:

- Water and sewer service charges
- Revenue from other governments and private entities
- Plant Investment Fees (“Tap Fees”)

Revenue from District service charges has remained steady with negligible collection problems. Remaining open land parcels and platted lots within District boundaries indicate that the District is 71% “built-out” under current zoning regulations and that there remains substantial growth potential in the District’s customer base. Several intergovernmental agreements are in place assuring revenues for the operation and maintenance of facilities. Plant Investment Fees depend on private investment decisions on new construction. This revenue goes into the District’s capital reserves which are dedicated to funding capital improvements related to growth; they are not used to fund operations.

Personnel costs and related benefits comprise the largest operational expense.

The District is committed to providing its customers with the highest quality and most cost-effective water and wastewater services while preserving public health, protecting the environment and ensuring the utmost customer satisfaction.

The District is equally dedicated to maintaining a work environment where every employee is recognized as a fundamental part of the organization, thereby encouraging teamwork and individual contributions.

DESCRIPTION OF FINANCIAL STATEMENTS

Mount Werner Water and Sanitation District operates as a utility enterprise fund and presents its financial statements using the accrual basis of accounting used by most private-sector companies. As an enterprise fund, the District's basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. The financial statement also includes Notes that provide more detailed information of significant elements within the financial statement. The District has no component units, nor is it a component unit of any other entity.

SCHEDULE OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE

The following table represents the variance between the District's actual revenues and expenditures and the budgeted amounts.

Actual vs. Budget

REVENUE SUMMARY	2018 ACTUAL	2018 BUDGET	VARIANCE Favorable (Unfavorable)
Service Charges	\$1,821,477	\$1,720,671	\$ 100,806
Water/Wastewater Meter Tap Fees	291,538	351,118	(59,580)
Water Filtration O & M - City Share	287,006	258,541	28,465
Interest Income	26,454	7,500	18,954
Other	57,474	53,985	3,489
Total Revenues	\$2,483,949	\$2,391,815	\$92,134
EXPENDITURE SUMMARY			
Administration	\$ 643,040	658,086	\$ 15,046
Distribution & Collection	483,942	511,993	28,051
Water Filtration	680,276	650,088	(30,188)
Raw Water Supply	46,289	55,055	8,766
Total Operating Costs	\$1,853,547	\$1,875,222	\$21,675
Operating Income (Loss)	\$630,402	\$516,593	\$113,809
Total Capital Expenses	\$1,433,982	\$1,790,153	\$356,171
Revenue Over (Under) Expense	(\$803,580)	(\$1,273,560)	\$469,980

Revenues:

The variation between 2018 actual and 2018 budgeted revenues were primarily due to:

- Tap fees for water and wastewater were \$63,580 less than anticipated as projects were deferred until 2019.
- Due to a dry summer and fall, service charges were \$100,806 more than budgeted.
- Contributed Infrastructure Assets totaled \$1,323,550.

Operating Expenses:

The variation between 2018 actual and 2018 budgeted expenditures were primarily due to:

- Administration:
 - Computer fees were 40% less than budgeted. Computer purchase made in Jan 2019
 - Water conservation 40% less than budgeted. Revamping in 2019 to include irrigation.
 - Training was 43% under budget. New Office Manager in 2019 will add to training.
- Distribution and Collection:
 - Personnel costs were 23% under budget. In 2018, actual hours worked in each division were accounted for.
 - Utilities were 20% under budget. Budget corrected in 2019 to reflect costs more accurately
- Water Filtration:
 - Chemicals: 27% over budget because of the timing of purchase and delivery.
 - Utilities were 31% under budget. Budgeted corrected in 2019 to reflects costs more accurately.
 - Two Filter Bay leases were paid for 2017 and 2018. Were 9% under budget.

Capital Expenditures:

Capital improvements completed in 2018 were:

▪ Rollingstone Water Main Loop	\$490
▪ Repair Water Main at Fish Creek	\$51,427
▪ Fire Flow Improvements	\$34,403
▪ PRV Improvements	\$5,599
▪ Skyline Tank New Meter	\$23,558
▪ Sewer Main Extension	\$22,188
▪ Phases 1 Core Trail Interceptor	\$35,134
▪ Wellfield Treatment Plant Capacity Upgrade	\$744,274
▪ Wellfield Treatment Plant Expansion	\$1,169,499
▪ Yampa Meadows Infiltration Gallery Engineering	\$31,724
▪ Fish Creek Treatment Plant Improvements	\$202,847
▪ Water Supply Master Plan	\$45,213
▪ Fish Creek Watershed Protection Plan	\$13,592
▪ Office Remodel	\$83,234

District Capital Improvements	\$2,463,182
2018 City Contribution	\$ 1,029,200
Total Capital Expenditures	\$ 1,433,982

Statement of Revenue, Expenses & Changes in Net Position

REVENUE SUMMARY	2016	2017	2018
Service Charges	\$1,506,175	\$1,634,741	\$1,821,477
Water/Wastewater Tap Fees	\$281,891	\$814,592	\$291,538
Water Filtration O&M - City Share	\$276,178	\$268,233	\$287,006
Interest Income	\$13,326	\$18,327	\$26,454
Other	\$16,593	\$927,815	\$1,374,924
Total Revenues	\$2,094,163	\$3,663,708	\$3,801,399

EXPENDITURE SUMMARY	2016	2017	2018
Administration	\$580,066	\$579,730	\$643,040
Distribution & Collection	\$439,112	\$448,802	\$483,942
Water Filtration	43,696	\$572,196	\$680,276
Raw Water Supply	\$43,508	\$45,263	\$46,289
Depreciation	\$1,403,955	\$1,465,334	\$1,546,978
Total Costs	\$3,110,337	\$3,111,325	\$3,400,525
Income (Loss)	(\$1,016,174)	\$552,383	\$400,874

NET POSITION

Condensed Statements of Net Position

	2016	2017	2018
Current Assets	\$3,641,163	\$4,042,666	\$3,188,788
Non-Current Assets	119,389	112,821	23,404
Restricted	40,103	40,141	40,291
Capital Assets, net accum depreciation	28,851,442	29,246,992	30,451,446
Total Assets	\$32,652,097	\$33,442,620	\$33,703,929
Current Liabilities	220,251	458,353	358,929
Long Term Liabilities	40,103	40,141	0
Total Liabilities	\$260,354	\$498,494	\$358,929
Invested in Capital, Net of Debt	28,851,442	29,246,992	30,451,446
Unrestricted	3,540,301	3,697,134	2,893,554
Restricted	0	0	0
Total Net Position	\$32,391,743	\$32,944,126	\$33,345,000

CAPITAL ASSETS

At the end of 2018, the District had invested \$30,451,446 in a broad range of infrastructure including water and sewer mains, storage tanks, raw water reservoir, water filtration plant, administration facilities, vehicles, equipment, participation fees and water rights as shown in the following table.

	2016	2017	2018
Water System	\$28,418,238	\$29,823,604	\$31,676,011
Sewer System	16,254,049	16,629,606	17,421,428
Fish Creek Reservoir	7,472,325	7,472,325	7,472,325
Land	2,813,784	2,813,841	2,813,841
Buildings and Improvements	639,507	647,444	730,678
Equipment & Vehicles	567,147	617,168	634,156
Water Rights	52,953	52,953	52,953
Less accumulated depreciation	-27,366,561	-28,809,948	-30,349,946
Net Property, Plant, and Equipment	\$28,851,442	\$29,246,992	\$30,451,446

If you have questions regarding this report or need additional information, please contact:

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MT. WERNER WATER AND SANITATION DISTRICT
Statement of Net Position
December 31, 2018
(with summarized financial information as of December 31, 2017)

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,027,671	\$ 2,792,267
Accounts receivable	1,019,480	1,094,336
Accrued interest receivable	1,707	605
Prepaid expenses	79,564	73,091
Inventories	60,366	82,367
Deferred plant investment fees receivable	1,843	87,782
Total current assets	3,190,631	4,130,448
Noncurrent assets:		
Capital assets, net of accumulated depreciation	30,451,446	29,246,992
Restricted assets	40,291	40,141
Prepaid expenses	21,561	25,039
Total assets	33,703,929	33,442,620
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	104,323	55,777
Retainage payable	-	77,835
Due to other governments	158,171	180,253
Compensated absences liability	18,586	19,503
Plant investment fee reimbursement liability	37,558	124,985
Funds held in escrow	40,291	40,141
Total current liabilities	358,929	498,494
Total liabilities	358,929	498,494
Net Position:		
Net investment in capital assets	30,451,446	29,246,992
Unrestricted	2,893,554	3,697,134
Total net position	\$ 33,345,000	\$ 32,944,126

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

MT. WERNER WATER AND SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water and wastewater service charges	\$ 1,821,477	\$ 1,634,741
Water filtration plant operating and maintenance sharing	287,006	268,233
Other	<u>57,474</u>	<u>55,055</u>
Total operating revenues	<u>2,165,957</u>	<u>1,958,029</u>
Operating expenses:		
Administration	643,040	579,730
Water distribution and wastewater collection	483,942	448,802
Water filtration	680,276	572,196
Raw water supply	46,289	45,263
Depreciation	<u>1,546,978</u>	<u>1,465,334</u>
Total operating expenses	<u>3,400,525</u>	<u>3,111,325</u>
Operating income (loss)	<u>(1,234,568)</u>	<u>(1,153,296)</u>
Non-operating revenues (expenses):		
Interest income	<u>26,454</u>	<u>18,327</u>
Total non-operating revenues	<u>26,454</u>	<u>18,327</u>
Income (loss) before other revenues, expenses, gains and losses	<u>(1,208,114)</u>	<u>(1,134,969)</u>
Other revenues, expenses, gains and losses:		
Plant investment fees	271,282	767,637
New meter fees	20,256	46,955
Contribution of infrastructure assets	1,323,550	878,416
Loss on disposal of capital assets	<u>(6,100)</u>	<u>(5,656)</u>
Other revenues, expenses, gains and losses	<u>1,608,988</u>	<u>1,687,352</u>
Change in net position	400,874	552,383
Net position, beginning of year	<u>32,944,126</u>	<u>32,391,743</u>
Net position, end of year	<u>\$ 33,345,000</u>	<u>\$ 32,944,126</u>

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

MT. WERNER WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,071,913	\$ 1,835,437
Cash payments to suppliers of goods or services	(782,481)	(660,896)
Cash payments to employees for wages and benefits	(1,004,431)	(1,041,148)
Net cash provided by operating activities	285,001	133,393
Cash flows from capital and related financing activities:		
Plant investment fees collected	269,794	895,987
New meter fees collected	20,256	46,955
Payments to acquire and construct capital assets	(1,364,999)	(1,092,424)
Net cash provided (used) by capital and related financing activities	(1,074,949)	(149,482)
Cash flows from investing activities:		
Interest earnings	25,352	18,200
Net cash provided by investing activities	25,352	18,200
Net change in cash and cash equivalents	(764,596)	2,111
Cash and cash equivalents, beginning of year	2,792,267	2,790,156
Cash and cash equivalents, end of year	\$ 2,027,671	\$ 2,792,267
Reconciliation of operating income (loss) to net cash provided by activities:		
Operating income (loss)	\$ (1,234,568)	\$ (1,153,296)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,546,978	1,465,334
Increase (decrease) in:		
Accounts receivable, net of capital reimbursement	(71,962)	(184,306)
Prepaid expenses	(2,995)	(4,806)
Inventories	22,001	(24,815)
(Decrease) increase in:		
Accounts payable and accrued expenses	48,546	(36,189)
Compensated absences liability	(917)	9,757
Due to other governments	(22,082)	61,714
Net cash provided by operating activities	\$ 285,001	\$ 133,393
Non-cash transactions:		
Contributions of infrastructure assets	\$ 1,323,550	\$ 878,416

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

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 1: Summary of Significant Accounting Policies

The Mt. Werner Water and Sanitation District (the District) was formed in 1965 to provide water and sanitation services for the then newly developing Steamboat Ski Area and Resort. The District was formed as a special district pursuant to Title 32 of Colorado Revised Statutes (CRS). The District treats and distributes water for the mountain resort area of Steamboat Springs and provides water to the City of Steamboat Springs (the City) for distribution to its customers. The District also provides the infrastructure for the collection of wastewater within the District that is treated at the City's wastewater treatment plant. The District and City share raw water storage in Fish Creek Reservoir and share ownership of the Fish Creek Filtration Plant.

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles (US GAAP) for governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The reporting entity consists of (a) the primary government, i.e., the District, and (b) organizations for which the District is financially accountable. The District does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The District operates as an enterprise and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, short-term certificates of deposit, and highly liquid investment pool funds.

Accounts Receivable

Amounts due to the District from charges for services provided are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. The District's management believes all accounts receivable to be fully collectible as of December 31, 2018 and 2017. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Inventories

Inventories consist of meters, chemicals and supplies used in District operations and are reported at cost.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Capital Assets

The District capitalizes water and wastewater infrastructure additions over \$2,500 and equipment additions over \$5,000. Such assets are recorded at historical cost if purchased or fair value if contributed to the District. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset estimated useful lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Water storage, treatment and distribution systems	10-40
Wastewater treatment, collection and transmission systems	30-40
Buildings and improvements	30
Vehicles, equipment and software	5-15

Deferred Plant Investment Fees Receivable

The District has agreed to allow certain nonprofit organizations to defer payment for plant investment fees for up to ten years with automatic extensions to twenty years. The District's management reviews these receivables periodically to consider the collectability of the balances and has determined all amounts to be fully collectible as of December 31, 2018.

Compensated Absences Liability

District employees accrue vacation and compensatory time benefits with each pay period. Employees can carryforward a certain amount of unused vacation hours at December 31 based upon the employee's length of employment with the District and unused vacation is paid to employees upon termination. Employees can carryforward no more than 20 hours of compensatory time at December 31.

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative financial information in total. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2017 from which the summarized financial information was derived.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on debt are budgeted and recorded as expenditures.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, District management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental appropriations for the year ended December 31, 2018.

Compliance

The District did not have expenditures in excess of appropriations for the year ended December 31, 2018.

TABOR Amendment

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

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

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

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

Management believes that the District qualifies as an enterprise as defined in TABOR. Therefore, the provisions of TABOR are not applicable to the District.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 3: Detailed Notes on the Fund

Deposits

The carrying amount of the District's deposits as of December 31, 2018 and 2017 was \$1,532,683 and \$2,009,703, respectively and bank balances were \$1,592,224 and \$2,359,510, respectively. Of the bank balances, \$750,000 as of both December 31, 2018 and 2017 was covered by federal deposit insurance and \$842,224 and \$1,609,510, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The 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 collateral 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 equal or exceed 102% of the aggregate uninsured deposits.

Investments

As of December 31, 2018 and 2017, the District had \$535,079 and \$822,506, respectively, invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. COLOTRUST PLUS+'s investment objective is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment adviser for COLOTRUST PLUS+ is Public Trust Advisors LLC, a Colorado-based investment adviser registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. The COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The portfolio's weighted average maturity to reset is kept under 60 days, which helps to enhance liquidity and limits market price exposure. Portfolio securities are priced to market daily. The COLOTRUST PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

The District's investments are subject to interest rate risk, credit risk, and concentration of credit risk. As a means of limiting its exposure to fair value losses arising from prevailing market interest rates, the District's investment policy states that the maximum maturity of any investment shall be no greater than five years, and all investments shall have a final maturity not exceeding five years from the date of purchase.

Restricted Assets

In 2011, the District entered into a Public Improvements Completion Agreement with a developer whereby the District collected \$39,873 at the time of building permit application to be held in a separate interest bearing escrow account. The escrow balance as of December 31, 2018 and 2017 was \$40,291 and \$40,141, respectively.

Prepaid Expenses

The District prepaid a United States Department of Agriculture (USDA) Forest Service special use permit for Fish Creek Reservoir during 2001 of \$60,326. The permit is dated February 10, 1998 and expires in 2023. The District is recording the expense over the life of the permit. As of December 31, 2018 and 2017, the District's prepaid portion of the permit fee was \$25,039 and \$28,282, respectively. Prepaid amounts not expected to be recognized in the next fiscal year are reported as a noncurrent asset.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 3: Detailed Notes on the Fund (continued)

Capital Assets

Capital asset activity for the year ended December 31, 2018 is summarized below:

	December 31, 2017 Balance	Additions	Deletions	December 31, 2018 Balance
Non-depreciable capital assets:				
Land, improvements and easements	\$ 2,813,841	\$ -	\$ -	\$ 2,813,841
Water rights	52,953	-	-	52,953
Total non-depreciable capital assets	2,866,794	-	-	2,866,794
Depreciable capital assets:				
Water storage, treatment and distribution systems	37,295,928	1,865,488	(13,080)	39,148,336
Wastewater treatment, collection and transmission system	16,629,606	791,822	-	17,421,428
Buildings and improvements	647,444	83,234	-	730,678
Vehicles, equipment and software	617,168	16,988	-	634,156
Total depreciable capital assets	55,190,146	2,757,532	(13,080)	57,934,598
Less: accumulated depreciation	(28,809,948)	(1,546,978)	6,980	(30,349,946)
Net depreciable capital assets	26,380,198	1,210,554	(6,100)	27,584,652
Total capital assets, net	\$ 29,246,992	\$ 1,210,554	\$ (6,100)	\$ 30,451,446

Plant Investment Fee Reimbursement Liability

From 1968 through 1984, the District received both water and wastewater plant investment fees from the owners of 10 vacant lots and wastewater plant investment fees from the owners of 3 vacant lots within the District's boundaries. In December 2017, the District's board of directors approved reimbursement of these prepaid plant investment fees calculated at the initial prepayment amount plus accrued interest utilizing the annual published 6-month Federal CD rates. The District reimbursed 7 lot owners in 2018 an aggregate of \$87,427. The District's remaining cumulative liability to 3 lot owners was \$37,558 as of December 31, 2018.

Note 4: Other Information

Intergovernmental Agreements

Water Treatment Plant Agreement

In November 2005, the District and City entered into an agreement for the treatment and disposal of sewage in the Steamboat Springs region. Per terms of the agreement, the District collects service charges from its residential and commercial customers for wastewater treatment and passes these payments through to the City. Wastewater treatment receipts are not recognized as revenues by the District. Additionally, the City does not charge the District for operating expenses attributable to the treatment of wastewater.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 4: Other Information (continued)

Intergovernmental Agreements (continued)

Agreement to Expand Fish Creek Reservoir

In July 1994, the District and City entered into an agreement to enlarge the storage capacity of the Fish Creek Reservoir. The agreement required the District to pay all construction costs of the enlargement project. The District funded the project with a \$4,630,000 loan from the Colorado Water Resources and Power Development Authority (CWRPDA) and the District's reserve funds.

In 2002, the agreement was amended allowing the City, at its option annually, to reserve and a percentage of the water filling under the enlargement, by paying \$175,000 to the District. The City's allotment percentage of the annual amount of water filling in the enlargement is fixed in perpetuity to be 2.518% multiplied by the number of years the City made the option payment to the District. The City made the option payment each year from 2000 through 2011 resulting in a perpetual reserved allotment of 27.698% of the annual fill in the enlargement pool.

Filtration Bay Lease of Stand-By Capacity

In May 2018, the District entered into a second lease agreement with the City to lease 50% of the actual production capacity of two filter bays owned by the City. The lease was effective July 1, 2017 for a 20-year term ending June 30, 2037. The lease can be terminated sooner by either party with 30 months' notification. The lease amount was based upon 50% of the cost of the two filter bays. The District incurred lease expenses of \$90,956 for the year ended December 31, 2018.

Required future operating lease payments are as follows:

Year Ended December 31,		
2019	\$	43,843
2020		42,753
2021		41,663
2022		40,573
2023		39,483
2024-2028		181,065
2029-2033		153,815
2034-2036		79,209
		622,404
	\$	622,404

Stagecoach Reservoir Storage Agreement

The District entered into an agreement with the Upper Yampa Water Conservancy District (UYWCD) on April 4, 1988 to purchase annually on a "take or pay basis" 200 acre feet of storage water in Stagecoach Reservoir at a price of \$35.00 per acre foot for a term of thirty years. At the end of the thirty year period the District has the continuing right for the life of Stagecoach Reservoir to purchase annually the 200 acre feet of storage at a price per acre foot based upon UYWCD's costs of operating, repairing, renovating and maintaining Stagecoach Reservoir.

In 2018, the District entered into an interim pricing agreement with UYWCD to maintain the \$35.00 per acre foot price through the year 2021.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018
(with summarized financial information as of December 31, 2017 and for the year then ended)

Note 4: Other Information (continued)

Intergovernmental Agreements (continued)

Yamcolo Reservoir Storage Agreements

The District entered into an extension and amendment agreement with UYWCD effective May 19, 2011 for 300 acre feet of storage water in the Yamcolo Reservoir for thirty years terminating July 15, 2041. The initial purchase price for the storage water was \$68.38 per acre foot and is subject to an annual CPI increase. The District paid \$82.00 per acre foot of storage water for the year ended December 31, 2018.

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 the District carries commercial insurance. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Retirement Plan

All employees can participate in a Simplified Employee Pension Individual Retirement Account (SEP-IRA) plan after a three-month probationary period. The District contributes 6% of employees' wages to the plan and the SEP-IRA accounts are self-directed and managed by the employees. All employees are fully vested immediately. District contributions to the SEP-IRA accounts were \$41,619 and \$43,925 for the years ended December 31, 2018 and 2017, respectively.

Subsequent Events

The District's management has evaluated subsequent events through March 15, 2019, the date these financial statements were available to be issued.

MT. WERNER WATER AND SANITATION DISTRICT
Enterprise Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance
Operating revenues:			
Service charges:			
Water	\$ 1,353,109	\$ 1,458,027	\$ 104,918
Wastewater collection	367,562	363,450	(4,112)
Water filtration plant operating and maintenance sharing	258,541	287,006	28,465
Other	53,985	57,474	3,489
Total operating revenues	2,033,197	2,165,957	132,760
Operating expenditures:			
Administration:			
Wages and benefits	424,628	414,584	10,044
Professional fees	50,000	49,599	401
Office and support systems	58,788	42,459	16,329
Insurance	25,996	23,393	2,603
Water conservation	11,500	6,875	4,625
Master planning	61,000	70,745	(9,745)
Engineering	3,655	2,685	970
Other	22,519	32,700	(10,181)
Total administration	658,086	643,040	15,046
Water distribution and wastewater collection:			
Wages and benefits	292,747	256,733	36,014
Utilities	42,439	39,220	3,219
Operating and maintenance	173,807	182,334	(8,527)
Other	3,000	5,655	(2,655)
Total water distribution and wastewater collection	511,993	483,942	28,051
Water filtration:			
Wages and benefits	300,854	332,197	(31,343)
Utilities	76,124	52,250	23,874
Chemicals	90,000	114,196	(24,196)
Operating and maintenance	70,388	71,041	(653)
Filter bay lease	100,000	90,956	9,044
Other	12,722	19,636	(6,914)
Total water filtration	650,088	680,276	(30,188)

MT. WERNER WATER AND SANITATION DISTRICT
Enterprise Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance
Raw water supply:			
Water purchases	31,575	31,600	(25)
Stream gauges	5,800	5,782	18
Watershed protection	6,200	3,535	2,665
Wellfield monitoring and protection	11,480	5,372	6,108
Total raw water supply	<u>55,055</u>	<u>46,289</u>	<u>8,766</u>
Total operating expenditures	<u>1,875,222</u>	<u>1,853,547</u>	<u>21,675</u>
Operating income	<u>157,975</u>	<u>312,410</u>	<u>154,435</u>
Non-operating revenues (expenditures):			
Water plant investment fees	231,368	194,227	(37,141)
Wastewater plant investment fees	99,750	77,055	(22,695)
New meter fees	20,000	20,256	256
Interest income	7,500	26,454	18,954
Capital outlay	<u>(1,790,153)</u>	<u>(1,433,982)</u>	<u>356,171</u>
Total non-operating revenues (expenditures)	<u>(1,431,535)</u>	<u>(1,115,990)</u>	<u>315,545</u>
Net income (loss) - budgetary basis	<u>\$ (1,273,560)</u>	<u>(803,580)</u>	<u>\$ 469,980</u>
Adjustments to US GAAP basis:			
Capitalized expenditures		1,433,982	
Loss on disposal of capital assets		(6,100)	
Contribution of infrastructure assets		1,323,550	
Depreciation		<u>(1,546,978)</u>	
Change in net position - US GAAP basis		400,874	
Fund balance, beginning of year		<u>32,944,126</u>	
Fund balance, end of year		<u>\$ 33,345,000</u>	