

**STEAMBOAT LAKE WATER AND
SANITATION DISTRICT**

Financial Statements

December 31, 2018

STEAMBOAT LAKE WATER AND SANITATION DISTRICT

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Independent Auditor's Report

Board of Directors
Steamboat Lake Water and Sanitation District
Routt County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Steamboat Lake 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 opinions 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 audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Steamboat Lake 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.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that U.S. generally accepted accounting principles 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 page 12 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
July 26, 2019

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Net Position
December 31, 2018

Assets:

Current assets:

Cash and cash equivalents	\$	605,426
Accounts receivable		12,187
Due from other governments		361
Prepaid expenses		13,425
Property taxes receivable		44,354
		44,354

Total current assets 675,753

Noncurrent assets:

Capital assets, net of accumulated depreciation		2,079,075
		2,079,075

Total assets 2,754,828

Liabilities:

Current liabilities:

Accounts payable and accrued expenses		11,636
Accrued interest payable		4,545
Current portion of notes payable		36,868
		36,868

Total current liabilities 53,049

Noncurrent liabilities:

Notes payable		346,292
		346,292

Total liabilities 399,341

Deferred Inflows of Resources:

Deferred property tax revenues		44,354
		44,354

Total deferred inflows of resources 44,354

Net Position:

Net investment in capital assets 1,695,915

Restricted for:

Emergencies		9,149
Unrestricted		606,069
		606,069

Total net position \$ 2,311,133

See accompanying notes to the financial statements.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2018

Operating revenues:

Charges for services:	
Water fees	\$ 80,784
Sewer fees	80,784
Availability of service fees	33,900
Other	616
	<hr/>

Total operating revenues

196,084

Operating expenses:

Water distribution and treatment:	
Wages and benefits	14,007
Repairs and maintenance	15,492
Utilities	7,420
Water treatment	2,717
Other	2,137
Loss on impairment of capital assets	58,643
Wastewater collection and treatment:	
Wages and benefits	17,395
Repairs and maintenance	7,344
Utilities	16,934
Wastewater treatment	598
Other	9,591
Administration:	
Wages and benefits	20,136
Professional fees	17,541
Insurance	9,823
Snowplowing	6,250
Tax collection fees	1,370
Other	3,613
Depreciation	123,878
	<hr/>

Total operating expenses

334,889

Operating income (loss)

(138,805)

Non-operating revenues (expenses):

Property taxes	45,530
Specific ownership taxes	3,853
Tap fees	47,250
Interest income	12,254
Interest expense	(14,479)
	<hr/>

Total non-operating revenues

94,408

Change in net position (44,397)

Net position, beginning of year

2,355,530

Net position, end of year \$ 2,311,133

See accompanying notes to the financial statements.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 198,479
Cash payments to suppliers for goods or services	(103,959)
Cash payments to employees for services	<u>(47,587)</u>
Net cash provided by operating activities	<u>46,933</u>
Cash flows from noncapital financing activities:	
Taxes collected	<u>49,407</u>
Net cash provided by noncapital financing activities	<u>49,407</u>
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(35,701)
Interest payments on long-term debt	(14,821)
Purchase of capital assets	(6,862)
Tap fees collected	<u>47,250</u>
Net cash provided (used) by capital and related financing activities	<u>(10,134)</u>
Cash flows from investing activities:	
Interest received	<u>12,254</u>
Net cash provided by investing activities	<u>12,254</u>
Net change in cash and cash equivalents	98,460
Cash and cash equivalents, beginning of year	<u>506,966</u>
Cash and cash equivalents, end of year	<u>\$ 605,426</u>
Reconciliation of operating income (loss) to net cash provided by activities:	
Operating income (loss)	\$ (138,805)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	123,878
Loss on impairment of capital assets	58,643
(Increase) decrease in:	
Accounts receivable	2,395
Prepaid expenses	390
(Decrease) increase in:	
Accounts payable and accrued expenses	<u>432</u>
Net cash provided by operating activities	<u>\$ 46,933</u>

See accompanying notes to the financial statements.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies

The Steamboat Lake Water and Sanitation District (the District) was established to provide water and sanitation services to residents within the Steamboat Lake Subdivisions located in northern Routt County, Colorado. The District was formed as a special district pursuant to Title 32 of Colorado Revised Statutes (CRS).

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles for governmental entities (US GAAP). 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 is a special-purpose governmental entity engaging entirely in business-type activities 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, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District's investment in the Colorado Local Government Liquid Asset Trust (COLOTRUST) PLUS+ fund is measured at net asset value, equal to \$1.00 per share.

Accounts Receivable

Amounts due to the District from charges for services provided are reported as accounts receivable. The District's management reviews its accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible as of December 31, 2018. 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.

Capital Assets

Capital assets include land and improvements, wells, water system, wastewater system, and equipment. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. 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 the asset's useful life are not capitalized.

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

	<u>Years</u>
Water systems and equipment	10-40
Wastewater systems and equipment	10-40

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist solely of unavailable revenues from property taxes.

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.

Property Taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routt County Treasurer's office collects property taxes and remits collections to the District on a monthly basis.

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.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures 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, the budget officer 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 January 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.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 2: Stewardship, Compliance and Accountability (continued)

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 current 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. The District has reserved \$9,149 of the December 31, 2018 fund balance for this purpose.

The District's voters passed a ballot issue in November 2003 that permanently lifted TABOR restrictions on the amount of revenue that the District can collect and expend.

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.

Note 3: Detailed Notes on the Fund

Deposits

The carrying amount of the District's deposits as of December 31, 2018 was \$19,462 and bank balances were \$52,818. All of the bank balances as of December 31, 2018 was covered by federal deposit insurance.

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 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.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 3: Detailed Notes on the Fund (continued)

Investments

As of December 31, 2018, the District had \$585,964 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. 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. 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 rising interest rates, the District currently invests only in investment pools which may be redeemed at any time.

Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	\$ 181,884	\$ -	\$ -	\$ 181,884
Wells	282,159	-	(58,643)	223,516
Total non-depreciable capital assets	464,043	-	(58,643)	405,400
Depreciable capital assets:				
Water system and equipment	1,402,125	-	-	1,402,125
Wastewater system and equipment	2,269,844	6,862	-	2,276,706
Total depreciable capital assets	3,671,969	6,862	-	3,678,831
Less: accumulated depreciation	(1,881,278)	(123,878)	-	(2,005,156)
Net depreciable capital assets	1,790,691	(117,016)	-	1,673,675
Total capital assets, net	\$ 2,254,734	\$ (117,016)	\$ (58,643)	\$ 2,079,075

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 3: Detailed Notes on the Fund (continued)

Long-Term Liabilities

The District had the following long-term debt outstanding as of December 31, 2018:

Alpine Bank Note Payable

The District entered into a \$465,440 loan agreement with Alpine Bank dated June 1, 2017. The note is payable in annual installments of \$50,515 on September 1 including interest at 3.5% through maturity on September 1, 2027. The note is secured by all accounts of the District, including accounts receivable and all revenues to be collected.

Activity in long-term liabilities for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Alpine Bank note payable	\$ 418,861	\$ -	\$ (35,701)	\$ 383,160	\$ 36,868
	<u>\$ 418,861</u>	<u>\$ -</u>	<u>\$ (35,701)</u>	<u>\$ 383,160</u>	<u>\$ 36,868</u>

Debt service requirements as of December 31, 2018 is as follows:

Year Ended December 31,	Principal	Interest	Total
2019	\$ 36,868	\$ 13,647	\$ 50,515
2020	38,146	12,369	50,515
2021	39,537	10,978	50,515
2022	40,944	9,571	50,515
2023	42,401	8,114	50,515
2024-2027	185,264	16,798	202,062
	<u>\$ 383,160</u>	<u>\$ 71,477</u>	<u>\$ 454,637</u>

Note 4: Other Information

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2018

Note 4: Other Information

Contingency

In 2013, the District received an \$84,000 grant from DOLA for drilling a well and constructing a well house in order to provide a reliable source of water to its residents. Terms of the grant require the District to utilize the facility as a well for at least ten years following completion of the grant. If the facility is used for any purpose other than intended during the ten-year period, the District is required to return a portion of the grant funds per a set payback schedule. All State restrictions on use of the property expire after the ten-year period.

Subsequent Events

The District evaluated subsequent events through July 26, 2019, the date these financial statements were available to be issued.

STEAMBOAT LAKE 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
Revenues:			
Charges for services:			
Water fees	\$ 81,600	\$ 80,784	\$ (816)
Sewer fees	81,600	80,784	(816)
Availability of service fees	36,000	33,900	(2,100)
Taxes:			
General property	46,000	45,530	(470)
Specific ownership	4,000	3,853	(147)
Tap fees	16,000	47,250	31,250
Interest	5,500	12,254	6,754
Other	550	616	66
Total revenues	<u>271,250</u>	<u>304,971</u>	<u>33,721</u>
Expenditures:			
Water distribution and treatment:			
Wages and benefits	14,000	14,007	(7)
Repairs and maintenance	20,000	15,492	4,508
Professional fees	-	-	-
Utilities	7,500	7,420	80
Water testing and treatment	6,000	2,717	3,283
Other	775	2,137	(1,362)
Wastewater collection and treatment:			
Wages and benefits	17,000	17,395	(395)
Repairs and maintenance	25,000	7,344	17,656
Utilities	13,500	16,934	(3,434)
Wastewater treatment	1,000	598	402
Other	5,500	9,591	(4,091)
Administration:			
Wages and benefits	15,550	20,136	(4,586)
Professional fees	36,600	17,541	19,059
Insurance	10,000	9,823	177
Snowplowing	6,250	6,250	-
Tax collection fees	1,800	1,370	430
Contingency	100,000	-	100,000
Other	6,115	3,613	2,502
Debt service:			
Principal	35,701	35,701	-
Interest	10,877	14,479	(3,602)
Capital outlay	<u>205,500</u>	<u>6,862</u>	<u>198,638</u>
Total expenditures	<u>538,668</u>	<u>209,410</u>	<u>329,258</u>
Net income (loss) - budgetary basis	<u>\$ (267,418)</u>	95,561	<u>\$ 362,979</u>
Adjustments to US GAAP basis:			
Capitalized expenditures		6,862	
Loss on impairment of capital assets		58,643	
Debt principal payments		35,701	
Depreciation		<u>(123,878)</u>	
Change in net position - US GAAP basis		72,889	
Fund balance, beginning of year		<u>2,355,530</u>	
Fund balance, end of year		<u>\$ 2,428,419</u>	