

WEST MONTROSE SANITATION DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

DONALD R. MORELAND & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Montrose Sanitation District
Montrose, Colorado 81403

We have audited the accompanying financial statements of West Montrose Sanitation District, as of and for the years ended December 31, 2019 and 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 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 District'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 District'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Montrose Sanitation District as of December 31, 2019 and 2018, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
West Montrose Sanitation District
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Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Montrose Sanitation District's financial statements as a whole. The supplementary information - revenues and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information - revenues and expenditures - budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Donald R. Moreland + Associates, P.C.

Montrose, Colorado
June 24, 2020

MANAGEMENT' S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the West Montrose Sanitation District (the District), we offer readers of the West Montrose Sanitation District's financial statements this narrative overview and analysis of the financial activities of the West Montrose Sanitation District for the fiscal years ended December 31, 2019 and 2018.

Financial Highlights

- The assets of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2,999,417 (net position). Of this amount, \$1,405,581 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors. At the close of the prior fiscal year the District's net position and unrestricted net position were \$3,120,259 and \$1,408,501, respectively.
- The District's net position for the current fiscal year increased (decreased) by \$(120,842), mainly the result of increased sludge removal. The District's net position for the prior fiscal year increased by \$42,650 mainly the result of increased septage fees and capital contributions-tap fees less increased repairs and maintenance.
- District revenues and expenses were relatively consistent from 2018 to 2019 with the exception of increased insurance recovery, decreased capital contributions-tap fees and increased sludge removal expense. District revenues and expenses were relatively consistent from 2017 to 2018 with the exception of increased septage fees, increased capital contributions-tap fees and increased repairs and maintenance expense.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the West Montrose Sanitation District's basic financial statements. The West Montrose Sanitation District's basic financial statements are presented as a special purpose government engaged only in business type activities - providing sanitation services.

The *statement of net position* presents information on all of the West Montrose Sanitation District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the West Montrose Sanitation District is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* report the District's cash flows from operating, capital and investing activities. Also presented are beginning and end of year cash and cash equivalents.

The basic financial statements can be found on pages 7 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 18 of the report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the West Montrose Sanitation District's budgetary comparisons for revenues and expenditures. Supplementary information can be found on page 19 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the West Montrose Sanitation District, assets exceeded liabilities and deferred inflows of resources by \$2,999,417 at the close of the most recent fiscal year.

A significant amount of the District's net position (approximately 50 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, treatment facilities and collection system). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

West Montrose Sanitation District Net Position

	<u>2019</u>	<u>2018</u>
Current assets	\$1,559,476	1,565,590
Capital assets	<u>1,593,836</u>	<u>1,711,758</u>
Total assets	<u>3,153,312</u>	<u>3,277,348</u>
Current liabilities	<u>89,438</u>	<u>96,536</u>
Total liabilities	<u>89,438</u>	<u>96,536</u>
Deferred inflows of resources	<u>64,457</u>	<u>60,553</u>
Total deferred inflows of resources	<u>64,457</u>	<u>60,553</u>
Net position:		
Net investment in capital assets	1,593,836	1,711,758
Unrestricted	<u>1,405,581</u>	<u>1,408,501</u>
Total net position	<u>\$2,999,417</u>	<u>3,120,259</u>

At the end of the current and prior fiscal year, the West Montrose Sanitation District is able to report positive balances in all categories of net position.

Under the GASB 34 reporting model the audit shows the District's net position increased (decreased) by \$(120,842) and \$42,650, respectively, during the years ended December 31, 2019 and 2018. The decrease in net position for 2019 was due to increased sludge removal. The increase in net position for 2018 was due to increased septage fees, increased capital contributions-tap fees less increased repairs and maintenance expense.

West Montrose Sanitation District Changes in Net Position

	<u>2019</u>	<u>2018</u>
Revenues:		
Operating revenue	\$ 826,881	785,409
Non-operating revenue	<u>99,160</u>	<u>69,566</u>
Total revenues	<u>926,041</u>	<u>859,975</u>
Expenses:		
Operating expenses:		
Administrative and general	139,245	147,061
Sewage collection and treatment	713,219	479,640
Depreciation	202,940	210,244
Non-operating expenses:		
Treasurer's fees	<u>1,979</u>	<u>1,630</u>
Total expenses	<u>1,057,383</u>	<u>838,575</u>
Income (loss) before contributions	(131,342)	16,400
Capital contributions - tap fees	<u>10,500</u>	<u>26,250</u>
Change in net position	(120,842)	42,650
Net position - beginning of year	<u>3,120,259</u>	<u>3,077,609</u>
Net position - end of year	<u>\$2,999,417</u>	<u>3,120,259</u>

Total expenses increased approximately 26 percent during the current fiscal year, mainly as a result of increased sludge removal. Total expenses increased approximately 14 percent for the prior fiscal year mainly as a result of increased repairs and maintenance, depreciation and consultant fees.

Budgetary highlights

Changes between actual revenues and budgeted amounts were primarily due to increased septage fees and insurance recovery.

Changes between actual expenses and budgeted amounts were primarily due to decreased personnel costs, increased sewage collection and treatment supplies and expense, as a result of sludge removal and decreased capital outlay.

Capital Asset and Debt Administration

Capital assets. The West Montrose Sanitation District's investment in capital assets as of December 31, 2019 and 2018 amounted to \$1,593,836 and \$1,711,758, respectively, (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building, equipment, treatment facilities and collection system.

There were no major capital assets events during the current and prior year.

West Montrose Sanitation District Capital Assets
(net of depreciation)

	2019	2018
Land	\$ 184,496	184,496
Treatment facility	678,447	808,820
Collection system	600,856	657,263
Office building	24,918	27,290
Transportation equipment	6,729	12,112
Furniture and equipment	98,390	21,777
	<u>\$1,593,836</u>	<u>1,711,758</u>

Additional information on the District's capital assets can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

The economic condition and outlook for the District in the upcoming year appears stable. Sanitation fees increased by \$2 a month in 2015 which increased revenue by approximately \$45,000. The District's anticipated collection of property and specific ownership taxes in 2020 will increase approximately \$4,000. Capital outlay, however, will be significantly increased. These plus other factors were considered in preparing the District's budget for the 2020 fiscal year. The District had reinstated septage collection in 2017 which has increased revenues.

Request for information

This financial report is designed to provide a general overview of the West Montrose Sanitation District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to West Montrose Sanitation District, 239 Chipeta Drive, Montrose, Colorado, 81403.

FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF NET POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 609,494	1,460,519
Investments	853,346	
Due from other governments	810	656
Accounts receivable	22,438	35,435
Property taxes receivable	64,457	60,553
Prepaid expenses	8,931	8,427
TOTAL CURRENT ASSETS	<u>1,559,476</u>	<u>1,565,590</u>
CAPITAL ASSETS		
Land	184,496	184,496
Land improvements	17,001	17,001
Treatment facilities	3,022,366	3,022,366
Collection system	1,930,542	1,930,542
Office building	61,592	61,592
Transportation equipment	49,144	49,144
Furniture and equipment	196,141	111,123
	<u>5,461,282</u>	<u>5,376,264</u>
Less accumulated depreciation	3,867,446	3,664,506
PROPERTY, PLANT AND EQUIPMENT - NET	<u>1,593,836</u>	<u>1,711,758</u>
TOTAL ASSETS \$	<u><u>3,153,312</u></u>	<u><u>3,277,348</u></u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 8,234	12,959
Customer advances	45,702	54,774
Accrued payroll	14,134	11,252
Payroll taxes withheld and accrued	2,530	1,536
Accrued compensated absences	18,838	16,015
TOTAL CURRENT LIABILITIES	<u>89,438</u>	<u>96,536</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred revenue - property taxes	64,457	60,553
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>64,457</u>	<u>60,553</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,593,836	1,711,758
Unrestricted	1,405,581	1,408,501
TOTAL NET POSITION \$	<u><u>2,999,417</u></u>	<u><u>3,120,259</u></u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUE</u>		
Sanitation fees	\$ 575,169	572,439
Septage fees	196,111	191,807
Rental income	6,000	5,700
Insurance recovery	35,143	
Other income	14,458	15,463
TOTAL OPERATING REVENUES	<u>826,881</u>	<u>785,409</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages	273,806	267,010
Payroll tax expense	21,535	20,770
Employee benefits	71,919	57,220
Accounting and audit fees	10,675	10,885
Licenses and permits	1,593	1,593
Insurance	13,905	14,078
Legal fees	4,250	6,626
Consultant fees	2,130	10,587
Bank fees	6,743	8,439
Miscellaneous	2,875	3,547
Office supplies and postage	9,185	9,334
Supplies	9,288	7,274
Telephone	6,403	5,874
Utilities	76,882	80,581
Repairs and maintenance	56,356	119,749
Sludge removal	281,360	
Depreciation	202,940	210,244
Vehicle expense	3,559	3,134
TOTAL OPERATING EXPENSES	<u>1,055,404</u>	<u>836,945</u>
OPERATING INCOME (LOSS)	<u>(228,523)</u>	<u>(51,536)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Investment income	21,820	4,490
Property and specific ownership tax	77,340	65,076
Treasurer's fees	(1,979)	(1,630)
NET NON-OPERATING REVENUE (EXPENSE)	<u>97,181</u>	<u>67,936</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(131,342)</u>	<u>16,400</u>
CAPITAL CONTRIBUTIONS - TAP FEES	<u>10,500</u>	<u>26,250</u>
CHANGE IN NET POSITION	(120,842)	42,650
NET POSITION, January 1	<u>3,120,259</u>	<u>3,077,609</u>
NET POSITION, December 31	<u>\$ 2,999,417</u>	<u>3,120,259</u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from user charges	\$ 830,806	790,441
Payments to suppliers for goods and services	(490,433)	(282,944)
Payments to employees	(360,561)	(344,428)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(20,188)</u>	<u>163,069</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Property and specific ownership tax-net	75,207	63,458
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>75,207</u>	<u>63,458</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(85,018)	(10,859)
Capital contributions - tap fees	10,500	26,250
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(74,518)</u>	<u>15,391</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of investment	(853,346)	
Investment income received	21,820	4,490
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(831,526)</u>	<u>4,490</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(851,025)	246,408
CASH AND CASH EQUIVALENTS, January 1	1,460,519	1,214,111
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 609,494</u>	<u>1,460,519</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (228,523)	(51,536)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202,940	210,244
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	12,997	2,120
(Increase) decrease in prepaid expenses	(504)	723
Increase (decrease) in accounts payable	(4,725)	(1,966)
Increase (decrease) in customer advances	(9,072)	2,912
Increase (decrease) in accrued payroll	2,882	(1,254)
Increase (decrease) in accrued compensated absences	2,823	1,750
Increase (decrease) in payroll taxes withheld and accrued	994	76
	<u>\$ (20,188)</u>	<u>163,069</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The West Montrose Sanitation District is incorporated as a special district under the laws of the State of Colorado with an elected board of five directors. The District provides sewage collection services for the residences and businesses within the District's boundaries and septage services. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the District consist only of the enterprise fund of the District, a primary government. Based on criteria set forth by GASB, there are no component units for which the District is financially accountable.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Proprietary Fund Financial Statements. The proprietary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019 and 2018

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents. The District considers all cash on hand, demand deposits and short-term highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments. It is the District's policy to invest in money market deposits with SEC registered broker-dealers, securities issued or guaranteed by the Federal government or its agencies and commercial paper. Investments, if any, are stated at fair value.

Allowance for doubtful accounts. The District considers all accounts receivable collectible and, accordingly, provides no allowance for doubtful accounts.

Property taxes receivable. Property taxes are levied on December 22 and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and collected in the following year are reported as a receivable at December 31, net of an estimated uncollectible portion.

Capital assets. Purchased or constructed capital assets are reported at cost or estimated historical cost. Construction costs are increased by interest incurred on bonds during the construction period and reduced by earnings from the investment of the unexpended bond proceeds. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives. Capital assets acquired by capital lease are depreciated over the estimated useful lives and are included in depreciation expense. The estimated useful lives are as follows:

Treatment facilities	5 - 25 years
Collection system	40 years
Building	40 years
Furniture and equipment	5 - 20 years
Transportation equipment	4 years
Land improvements	10 years

Compensated absences. The liability for compensated absences consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGET AND BUDGETARY ACCOUNTING.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budgets are required by state law for all governmental funds.
2. During September the proposed budget is submitted to the Board of Directors for the fiscal year commencing the following January 1.
3. Prior to December 31, the budget is adopted and appropriations are authorized by resolution at the fund level for all funds. The legal level of budgeting control is at the individual fund level for all funds.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that capital outlays are budgeted as expenditures, no provision is made for depreciation and advance refundings are not budgeted.
5. Expenditures may not legally exceed appropriations at the fund level. The Board of Directors may increase or decrease the budget and appropriations during the year within restrictions imposed by the District and laws of the State of Colorado. Budget amounts included in the financial statements are based on the final, legally amended budget.
6. Appropriations lapse at the end of the year, and the Board of Directors may adopt supplemental appropriations during the year. For 2019 and 2018, supplemental appropriations were not adopted.

Originally adopted budgeted expenditures, amendments and the final amended budgeted expenditures for the year ended December 31, 2019 and 2018 are as follows:

	ORIGINAL BUDGET	AMENDMENT	FINAL BUDGET
Enterprise Fund - 2019	\$ <u>1,307,250</u>	<u> </u>	<u>1,307,250</u>
Enterprise Fund - 2018	\$ <u>921,952</u>	<u> </u>	<u>921,952</u>

Reclassifications. Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

WEST MONTROSE SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2019 and 2018

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits

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

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2019 and 2018 none of the District's bank balances of \$612,359 and \$1,486,644, respectively, were exposed to custodial credit risk as \$308,261 and \$339,819, respectively, were insured and \$304,098 and \$1,146,825, respectively, were collateralized by securities pledged by financial institutions.

At December 31, 2019 and 2018 the carrying amount of the District's deposits were presented on the balance sheet as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ <u>609,494</u>	<u>1,460,519</u>

Investments

As of December 31, 2019, the District had the following investments:

	<u>MATURITIES</u>	<u>FAIR VALUE</u>
		<u>2019</u>
CSAFE	N/A	\$853,346

As of December 31, 2019, the District has invested \$853,346 in CSAFE, an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. The value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pool.

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Investments (continued)

The District's investment in CSAFE is rated AAAM by S&P. CSAFE is routinely monitored by the Colorado Division of Securities with regard to operations and investments. Separately issued financial statements may be obtained at the following address:

CSAFE
1675 Broadway, Suite 500
Denver, CO 80202
www.csafe.org

Interest rate risk

The District has a formal investment policy that limits investment maturities to less than ten years from date of purchase as means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and guaranteed investment contracts. The District's general investment policy is to apply the prudent-person rule: Prudence and protection of District funds are the primary criteria. All investments and bid requests for investments are predicated on liquidity, yield, safety and interest of local economy. As of December 31, 2019, the District's investment in CSAFE, a 2a7-like investment pool, was rated AAAM by Standard & Poors.

Concentration of credit risk

The District limits the amount that may be invested in commercial paper to no more than 50% of invested funds, effective August 9, 2013. More than 5 percent of the District's investments are in CSAFE. At December 31, 2019, CSAFE represented 100% of the District's investments.

The District had no investments during the year ended December 31, 2018.

These investments are presented on the balance sheet as follows:

	<u>2019</u>
Investments	<u>\$835,346</u>
	<u>\$835,346</u>

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Fair value measurement

Government Accounting Standards Board Statement No. 72 (GASB 72) *Fair Value Measurement and Application* establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques. According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair application guidance and enhances disclosures about fair value measurements.

The District's investments and derivative instruments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure fair value of assets and liabilities as follows.

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy.

Level 3 - Prices determined using significant unobservable inputs. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The following table reflects the fair value of the District's investments and derivative instruments as of December 31, 2019:

<u>2019</u> <u>Assets</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
CSAFE	\$853,346	_____	_____	_____
Total investments	<u>\$853,346</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019 and 2018

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Fair value measurement (continued)

(A) During the year ended December 31, 2019, the District invested in CSAFE, a local government investment pool. The valuation is measured at net asset value and is designed to approximate the share value. The pool's Board of Trustees, elected by the participants, is responsible for overseeing the management of CSAFE, including establishing operating standards and policies. CSAFE is designed to provide local governments with a convenient method for investing in short-term investments carefully chosen to provide maximum safety and liquidity, while still maximizing interest earnings.

The District had no investments during the year ended December 31, 2018.

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2019				
Capital assets not being depreciated:				
Land and easements	\$ 184,496			184,496
Capital assets being depreciated:				
Land improvements	17,001			17,001
Treatment facilities	3,022,366			3,022,366
Collection system	1,930,542			1,930,542
Office building	61,592			61,592
Transportation equipment	49,144			49,144
Furniture and equipment	111,123	85,018		196,141
Total capital assets being depreciated	<u>5,191,768</u>	<u>85,018</u>		<u>5,276,786</u>
depreciation for:				
Land improvements	17,001			17,001
Treatment facilities	2,213,546	130,373		2,343,919
Collection system	1,273,279	56,407		1,329,686
Office building	34,302	2,372		36,674
Transportation equipment	37,032	5,383		42,415
Furniture and equipment	82,349	8,405		97,751
Total accumulated depreciation	<u>3,664,506</u>	<u>202,940</u>		<u>3,867,446</u>
Total capital assets, net	<u>\$1,711,758</u>	<u>(117,922)</u>		<u>1,593,836</u>

WEST MONTROSE SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2019 and 2018

3 - CAPITAL ASSETS (continued)

2018				
Capital assets not being depreciated:				
Land and easements	\$ 184,496			184,496
Capital assets being depreciated:				
Land improvements	17,001			17,001
Treatment facilities	3,022,366			3,022,366
Collection system	1,925,981	4,561		1,930,542
Office building	61,592			61,592
Transportation equipment	49,144			49,144
Furniture and equipment	105,544	6,298	719	111,123
Total capital assets being depreciated	5,181,628	10,859	719	5,191,768
Less accumulated depreciation for:				
Land improvements	17,001			17,001
Treatment facilities	2,082,148	131,398		2,213,546
Collection system	1,209,851	63,428		1,273,279
Office building	31,929	2,373		34,302
Transportation equipment	31,649	5,383		37,032
Furniture and equipment	82,403	7,662	719	89,346
Total accumulated depreciation	3,454,981	210,244	719	3,664,506
Total capital assets, net	\$1,911,143	(199,385)		1,711,758

4 - SHORT-TERM DEBT

The District had no short-term debt during the years ended December 31, 2019 and 2018.

5 - SPENDING AND DEBT LIMITATIONS

The State Constitution, Article X, Section 20, has several limitations regarding revenue raising, spending abilities, and other specific requirements of state and local governments. The Section is complex and subject to judicial interpretation. It is the opinion of management and the District's attorney that the District's sewage activity is an enterprise within the meaning of Article X, Section 20, and is not subject to the revenue limitations nor required to establish the emergency reserves but is subject to the property tax limitations contained therein.

6 - RISK MANAGEMENT

The District is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Such exposure, except for the collection system, is covered by purchase of commercial insurance, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WEST MONTROSE SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

7 - EMPLOYEES' RETIREMENT PLAN

The District provides pension benefits for all of its full-time employees in two separate defined contribution plans through the Colorado County Officials and Employees Retirement Association (CCOERA), a multiple-employer public employee retirement system. Any Colorado County, Special District or Municipality may choose to adopt the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately. Association rules require that both the employee and the District contribute 8% of total compensation to the plan. Plan provisions and contribution requirements are established and may be amended by CCOERA and would have to be approved by the District.

The District's contribution for each employee (and earnings, losses and changes in fair market value of plan assets) are vested at a rate of 50% per year. Employee contributions and their earnings are 100% vested immediately. Nonvested contributions are forfeited upon termination of employment and such forfeitures may be used to pay plan expenses or the employer's contribution to the plan. For the years ended December 31, 2019 and 2018, there were no forfeitures.

The District's total payroll for 2019 and 2018 was \$273,806 and \$267,010, respectively. The District's contributions were calculated using the covered payroll of \$247,913 and \$240,750 for 2019 and 2018, respectively. Both the District and the covered employees made the 8% contribution, amounting to \$19,833 for 2019 and \$19,290 for 2018 from each source, or \$39,666 and \$38,520 in total for 2019 and 2018, respectively. The plan had four plan members for 2019 and 2018.

The District had no liability to the plan at December 31, 2019 and 2018.

8 - SUBSEQUENT EVENTS

Subsequent events were evaluated through June 24, 2020 which is the date the financial statements were available to be issued.

In 2020, domestic and international economies face uncertainty related to the COVID-19 pandemic. The District may be adversely affected through a delay in collection of charges and negative impacts on operations. However, the related financial impact cannot be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

WEST MONTROSE SANITATION DISTRICT
REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
For the Years ended December 31, 2019 and 2018

	2019		2018		VARIANCE WITH
	ORIGINAL AND FINAL BUDGET	ACTUAL	ORIGINAL AND FINAL BUDGET	ACTUAL	FINAL BUDGET FAVORABLE (UNFAVORABLE)
PROPRIETARY REVENUE					
Sanitation fees	\$ 581,227	575,169	584,155	572,439	(11,716)
Septage fees	128,000	196,111	88,000	191,807	103,807
Tap fees	10,500	10,500	5,250	26,250	21,000
Investment income	900	21,820	500	4,490	3,990
Rental income	6,000	6,000	5,025	5,700	675
Insurance recovery		35,143			
Other income	14,500	14,458	14,000	15,463	1,463
	<u>741,127</u>	<u>859,201</u>	<u>696,930</u>	<u>816,149</u>	<u>119,219</u>
PROPRIETARY EXPENDITURES					
Administration:					
Personnel costs	106,946	89,978	93,219	79,275	13,944
Supplies and expense	65,300	35,362	66,600	53,708	12,892
Insurance	14,500	13,905	14,500	14,078	422
Sewage Collection and Treatment:					
Personnel costs	309,154	277,282	290,331	265,725	24,606
Supplies and expense	251,850	435,937	243,050	213,915	29,135
Capital outlay	357,000	85,018	11,752	10,859	893
Contingency	200,000	200,000	200,000	200,000	200,000
	<u>1,304,750</u>	<u>937,482</u>	<u>919,452</u>	<u>637,560</u>	<u>281,892</u>
TOTAL PROPRIETARY EXPENDITURES					
	<u>(563,623)</u>	<u>(78,281)</u>	<u>(222,522)</u>	<u>178,589</u>	<u>401,111</u>
EXCESS OF PROPRIETARY REVENUES OVER (UNDER) EXPENDITURES					
	67,574	77,340	62,959	65,076	2,117
GOVERNMENTAL REVENUE					
Property and specific ownership taxes					
	2,500	1,979	2,500	1,630	870
GOVERNMENTAL EXPENDITURES					
Treasurer's fees					
EXCESS OF GOVERNMENT REVENUES OVER (UNDER) EXPENDITURES					
	65,174	75,361	60,459	63,446	2,987
TOTAL DISTRICT REVENUES	<u>808,801</u>	<u>936,541</u>	<u>759,889</u>	<u>881,225</u>	<u>121,336</u>
TOTAL DISTRICT EXPENDITURES	<u>1,307,250</u>	<u>939,461</u>	<u>921,952</u>	<u>639,190</u>	<u>282,762</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	<u>(498,449)</u>	<u>(2,920)</u>	<u>(162,063)</u>	<u>242,035</u>	<u>404,098</u>
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENDITURES TO CHANGE IN NET POSITION					
CAPITALIZED EXPENDITURES DEPRECIATION					
		85,018		10,859	
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION \$		<u>(202,940)</u>		<u>(210,244)</u>	
		<u>(120,842)</u>		<u>42,650</u>	