

**MT. WERNER WATER AND
SANITATION DISTRICT**

Financial Statements

December 31, 2019

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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 15, 2019. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2018 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 3-8 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 19-20 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.



Steamboat Springs, Colorado
March 20, 2020

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, 2019. 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 72% “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	2019 ACTUAL	2019 BUDGET	VARIANCE Favorable (Unfavorable)
Service Charges	\$1,865,476	\$1,864,275	\$ 1,201
Water/Wastewater Meter Tap Fees	989,251	620,000	369,251
Water Filtration O & M - City Share	292,209	293,426	(1,217)
Interest Income	39,092	10,000	29,092
Other	495,101	60,278	434,823
Total Revenues	\$3,681,129	\$2,847,979	\$833,150
EXPENDITURE SUMMARY			
Administration	\$ 719,827	753,986	\$ 34,159
Distribution & Collection	529,435	545,521	16,086
Water Filtration	643,059	668,153	25,094
Raw Water Supply	57,454	59,775	2,321
Total Operating Costs	\$1,949,774	\$2,027,433	\$77,659
Operating Income (Loss)	\$1,731,355	\$820,546	\$930,809
Total Capital Expenses	\$1,730,768	\$1,872,855	\$142,087
Revenue Over (Under) Expense	\$587	(\$1,072,309)	\$1,072,896

Revenues:

The variation between 2019 actual and 2019 budgeted revenues were primarily due to:

- Total operating revenues were below budget \$6,485 mainly as a result of “other” income was less than anticipated.
- Tap fees for water and wastewater were \$369,251 more than anticipated due to two (2) large development projects started in 2019.
- Contributed Infrastructure Assets totaled \$416,033.

Operating Expenses:

The variation between 2019 actual and 2019 budgeted expenditures were primarily due to:

- Administration:
 - Master Planning was \$23,901 less than budgeted.
 - Professional fees were \$14,847 less than budgeted.
- Distribution and Collection:
 - Personnel costs were \$24,493 under budget.
 - Operating and Maintenance expenses are \$20,519 under budget
 - Meter costs were \$28,862 over budget as several replacement MTU’s and mutiple large malfunctioning and new meters were installed
- Water Filtration:
 - Chemicals: were \$25,855 under budget due to a year-end inventory adjustment.
 - Utilities were 14% under budget.
 - Personnel Costs were 9% over budget due to actual hours allocated to each department.
- Raw Water Supply
 - Wellfield Protection was \$3,227 under budget

Capital Expenditures:

Capital improvements completed in 2019 were:

▪ Water Main Extensions replacements	\$18,515
▪ Water Main Loop Installation at North Meadows	\$97,740
▪ Water Main Repair Fish Creek	\$3,626
▪ PRV Improvements	\$13,860
▪ Skyline Tank Repairs	\$1,140
▪ Phases 1 Core Trail Interceptor Upgrade	\$830,449
▪ 3 Monitoring Vaults	\$132,026
▪ Scada Update	\$19,600
▪ Fish Creek Filtration Plant Improvements	\$125,351
▪ Wellfield Treatment Plant Compliance Upgrade	\$2,678
▪ Yampa Meadows Infiltration Gallery Expansion (Engineering/Design)	\$234,224
▪ DCU Replacements - Aclara	\$15,778
▪ Water Supply Master Plan – 2019 Update	\$18,334
▪ Fish Creek Watershed Protection Plan	\$55,970
▪ Water Conservation Plan Update	\$5,585
▪ Shop Roof Replacement	\$36,673
▪ Vehicle Replacement	\$15,600
▪ Office Remodel/Furniture Package	\$173,800

District Capital Improvements	\$1,800,949
2019 City Contribution	\$ 70,181
Total Capital Expenditures	\$1,730,768

Statement of Revenue, Expenses & Changes in Net Position

REVENUE SUMMARY	2017	2018	2019
Service Charges	\$1,634,741	\$1,821,477	\$1,865,476
Water/Wastewater Tap Fees	\$814,592	\$291,538	\$989,251
Water Filtration O&M - City Share	\$268,233	\$287,006	\$292,209
Interest Income	\$18,327	\$26,454	\$39,092
Other	\$927,815	\$1,374,923	\$495,102
Total Revenues	\$3,663,708	\$3,801,398	\$3,681,130

EXPENDITURE SUMMARY	2017	2018	2019
Administration	\$579,730	\$643,040	\$719,826
Distribution & Collection	\$448,802	\$483,942	\$529,435
Water Filtration	\$572,196	\$680,277	\$643,059
Raw Water Supply	\$45,263	\$46,289	\$57,454
Depreciation	\$1,465,334	\$1,546,978	\$1,611,236
Total Costs	\$3,111,325	\$3,400,526	\$3,561,010
Income (Loss)	\$552,383	\$400,872	\$120,120

NET POSITION
Condensed Statements of Net Position

	2017	2018	2019
Current Assets	\$4,042,666	\$3,188,788	\$3,261,002
Non-Current Assets	112,821	23,404	27,390
Restricted	40,141	40,291	40,493
Capital Assets, net accum depreciation	29,246,992	30,451,446	30,982,550
Total Assets	\$33,442,620	\$33,703,929	\$34,311,435
Current Liabilities	458,353	358,929	846,315
Long Term Liabilities	40,141	0	0
Total Liabilities	\$498,494	\$358,929	\$846,315
Invested in Capital, Net of Debt	29,246,992	30,451,446	30,982,550
Unrestricted	3,697,134	2,893,554	2,482,570
Restricted	0	0	0
Total Net Position	\$32,944,126	\$33,345,000	\$33,465,120

CAPITAL ASSETS

At the end of 2019, the District had invested \$30,982,550 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.

	2017	2018	2019
Water System	\$29,823,604	\$31,676,011	\$32,625,640
Sewer System	16,629,606	17,421,428	18,331,282
Fish Creek Reservoir	7,472,325	7,472,325	7,472,325
Land	2,813,841	2,813,841	2,813,841
Buildings and Improvements	647,444	730,678	941,150
Equipment & Vehicles	617,168	634,156	561,474
Water Rights	52,953	52,953	52,953
Less accumulated depreciation	-28,809,948	-30,349,946	-31,816,115
Net Property, Plant, and Equipment	\$29,246,992	\$30,451,446	\$30,982,550

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, 2019
(with summarized financial information as of December 31, 2018)

	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,106,646	\$ 2,027,671
Accounts receivable	1,003,187	1,019,480
Accrued interest receivable	2,843	1,707
Prepaid expenses	74,595	79,564
Inventories	73,731	60,366
Deferred plant investment fees receivable	-	1,843
Total current assets	3,261,002	3,190,631
Noncurrent assets:		
Capital assets, net of accumulated depreciation	30,982,550	30,451,446
Restricted assets	40,493	40,291
Prepaid expenses	17,830	21,561
Security deposit	9,560	-
Total assets	34,311,435	33,703,929
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	252,602	104,323
Retainage payable	83,770	-
Due to other governments	433,754	158,171
Compensated absences liability	19,253	18,586
Plant investment fee reimbursement liability	16,443	37,558
Funds held in escrow	40,493	40,291
Total current liabilities	846,315	358,929
Total liabilities	846,315	358,929
Net Position:		
Net investment in capital assets	30,982,550	30,451,446
Unrestricted	2,482,570	2,893,554
Total net position	\$ 33,465,120	\$ 33,345,000

See accompanying notes to the financial statements.

MT. WERNER WATER AND SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2019
(with summarized financial information for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Water and wastewater service charges	\$ 1,865,476	\$ 1,821,477
Water filtration plant operating and maintenance sharing	292,209	287,006
Other	<u>33,809</u>	<u>57,474</u>
Total operating revenues	<u>2,191,494</u>	<u>2,165,957</u>
Operating expenses:		
Administration	719,826	643,040
Water distribution and wastewater collection	529,435	483,942
Water filtration	643,059	680,276
Raw water supply	57,454	46,289
Depreciation	<u>1,611,236</u>	<u>1,546,978</u>
Total operating expenses	<u>3,561,010</u>	<u>3,400,525</u>
Operating income (loss)	<u>(1,369,516)</u>	<u>(1,234,568)</u>
Non-operating revenues (expenses):		
Interest income	<u>39,092</u>	<u>26,454</u>
Total non-operating revenues	<u>39,092</u>	<u>26,454</u>
Income (loss) before other revenues, expenses, gains and losses	<u>(1,330,424)</u>	<u>(1,208,114)</u>
Other revenues, expenses, gains and losses:		
Plant investment fees	989,251	271,282
New meter fees	49,720	20,256
Contribution of infrastructure assets	416,033	1,323,550
Loss on disposal of capital assets	<u>(4,460)</u>	<u>(6,100)</u>
Other revenues, expenses, gains and losses	<u>1,450,544</u>	<u>1,608,988</u>
Change in net position	120,120	400,874
Net position, beginning of year	<u>33,345,000</u>	<u>32,944,126</u>
Net position, end of year	<u>\$ 33,465,120</u>	<u>\$ 33,345,000</u>

See accompanying notes to the financial statements.

MT. WERNER WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2019
(with summarized financial information for the year ended December 31, 2018)

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,207,787	\$ 2,071,913
Cash payments to suppliers of goods or services	(522,223)	(782,481)
Cash payments to employees for wages and benefits	(1,017,246)	(1,004,431)
Net cash provided by operating activities	668,318	285,001
Cash flows from capital and related financing activities:		
Plant investment fees collected	969,979	269,794
New meter fees collected	49,720	20,256
Payments to acquire and construct capital assets	(1,646,998)	(1,364,999)
Net cash provided (used) by capital and related financing activities	(627,299)	(1,074,949)
Cash flows from investing activities:		
Interest earnings	37,956	25,352
Net cash provided by investing activities	37,956	25,352
Net change in cash and cash equivalents	78,975	(764,596)
Cash and cash equivalents, beginning of year	2,027,671	2,792,267
Cash and cash equivalents, end of year	\$ 2,106,646	\$ 2,027,671
Reconciliation of operating income (loss) to net cash provided by activities:		
Operating income (loss)	\$ (1,369,516)	\$ (1,234,568)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,611,236	1,546,978
Increase (decrease) in:		
Accounts receivable, net of capital reimbursement	16,293	(71,962)
Prepaid expenses	8,700	(2,995)
Inventories	(13,365)	22,001
Security deposit	(9,560)	-
(Decrease) increase in:		
Accounts payable and accrued expenses	148,280	48,546
Compensated absences liability	667	(917)
Due to other governments	275,583	(22,082)
Net cash provided by operating activities	\$ 668,318	\$ 285,001
Non-cash transactions:		
Contributions of infrastructure assets	\$ 416,033	\$ 878,416

See accompanying notes to the financial statements.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2019
(with summarized financial information as of December 31, 2018 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, 2019 and 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.

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, 2019
(with summarized financial information as of December 31, 2018 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

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, 2018 from which the summarized financial information was derived.

MT. WERNER WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2019
(with summarized financial information as of December 31, 2018 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, 2019.

Compliance

The District did not have expenditures in excess of appropriations for the year ended December 31, 2019.

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, 2019
(with summarized financial information as of December 31, 2018 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, 2019 and 2018 was \$1,391,497 and \$1,532,683, respectively and bank balances were \$1,448,568 and \$1,592,224, respectively. Of the bank balances, \$750,000 as of both December 31, 2019 and 2018 was covered by federal deposit insurance and \$698,568 and \$842,224, 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, 2019 and 2018, the District had \$755,441 and \$535,079, 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. The investment objective of COLOTRUST PLUS+ 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. 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, 2019 and 2018 was \$40,493 and \$40,291, 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, 2019 and 2018, the District's prepaid portion of the permit fee was \$21,561 and \$25,039, 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, 2019
(with summarized financial information as of December 31, 2018 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, 2019 is summarized below:

	December 31, 2018 Balance	Additions	Deletions	December 31, 2019 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	<u>2,866,794</u>	<u>-</u>	<u>-</u>	<u>2,866,794</u>
Depreciable capital assets:				
Water storage, treatment and distribution systems	39,148,336	949,629	-	40,097,965
Wastewater treatment, collection and transmission system	17,421,428	963,449	(53,595)	18,331,282
Buildings and improvements	730,678	210,472	-	941,150
Vehicles, equipment and software	634,156	23,250	(95,932)	561,474
Total depreciable capital assets	57,934,598	2,146,800	(149,527)	59,931,871
Less: accumulated depreciation	<u>(30,349,946)</u>	<u>(1,611,236)</u>	<u>145,067</u>	<u>(31,816,115)</u>
Net depreciable capital assets	<u>27,584,652</u>	<u>535,564</u>	<u>(4,460)</u>	<u>28,115,756</u>
Total capital assets, net	<u>\$ 30,451,446</u>	<u>\$ 535,564</u>	<u>\$ (4,460)</u>	<u>\$ 30,982,550</u>

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's remaining cumulative liability to one lot owner is \$16,443 as of December 31, 2019.

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, 2019
(with summarized financial information as of December 31, 2018 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 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 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 expense of \$43,843 for the year ended December 31, 2019.

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		38,393
2025-2029		175,615
2030-2034		148,365
2035-2036		51,716
		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 200 acre feet of storage water in Stagecoach Reservoir annually on a "take or pay basis" 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, 2019
(with summarized financial information as of December 31, 2018 and for the year then ended)

Note 4: Other Information (continued)

Intergovernmental Agreements (continued)

Yamcolo Reservoir Storage Agreement

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 \$84.21 per acre foot of storage water for the year ended December 31, 2019.

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 District has not had losses of a material amount in any of the preceding three years.

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.

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 \$42,755 and \$41,619 for the years ended December 31, 2019 and 2018, respectively.

Subsequent Events

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including Colorado, have declared a state of emergency.

Although management continues to monitor and assess the effects of the COVID-19 pandemic on the District, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change.

The District's management has evaluated subsequent events through March 20, 2020, 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, 2019

	Original and Final Budget	Actual	Variance
Operating revenues:			
Service charges:			
Water	\$ 1,447,827	\$ 1,464,949	\$ 17,122
Wastewater collection	416,448	400,527	(15,921)
Water filtration plant operating and maintenance sharing	293,426	292,209	(1,217)
Other	40,278	33,809	(6,469)
Total operating revenues	<u>2,197,979</u>	<u>2,191,494</u>	<u>(6,485)</u>
Operating expenditures:			
Administration:			
Wages and benefits	430,253	429,000	1,253
Professional fees	90,000	79,787	10,213
Office and support systems	62,970	58,059	4,911
Insurance	21,741	21,948	(207)
Water conservation	11,500	6,925	4,575
Master planning	110,500	86,599	23,901
Engineering	4,500	822	3,678
Other	22,520	36,686	(14,166)
Total administration	<u>753,984</u>	<u>719,826</u>	<u>34,158</u>
Water distribution and wastewater collection:			
Wages and benefits	258,978	234,485	24,493
Utilities	41,600	41,961	(361)
Operating and maintenance	241,943	249,303	(7,360)
Other	3,000	3,686	(686)
Total water distribution and wastewater collection	<u>545,521</u>	<u>529,435</u>	<u>16,086</u>
Water filtration:			
Wages and benefits	335,470	354,428	(18,958)
Utilities	67,600	58,008	9,592
Chemicals	130,000	104,145	25,855
Operating and maintenance	72,532	60,820	11,712
Filter bay lease	43,843	43,843	-
Other	18,708	21,815	(3,107)
Total water filtration	<u>668,153</u>	<u>643,059</u>	<u>25,094</u>

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, 2019

	Original and Final Budget	Actual	Variance
Raw water supply:			
Water purchases	31,575	32,263	(688)
Stream gauges	5,800	5,782	18
Watershed protection	13,600	13,836	(236)
Wellfield monitoring and protection	8,800	5,573	3,227
Total raw water supply	59,775	57,454	2,321
Total operating expenditures	2,027,433	1,949,774	77,659
Operating income	170,546	241,720	71,174
Non-operating revenues (expenditures):			
Water plant investment fees	450,000	694,500	244,500
Wastewater plant investment fees	170,000	294,751	124,751
New meter fees	20,000	49,720	29,720
Interest income	10,000	39,092	29,092
Capital outlay	(1,872,855)	(1,730,768)	142,087
Total non-operating revenues (expenditures)	(1,222,855)	(652,705)	570,150
Net income (loss) - budgetary basis	<u>\$ (1,052,309)</u>	(410,985)	<u>\$ 641,324</u>
Adjustments to US GAAP basis:			
Capitalized expenditures		1,730,768	
Loss on disposal of capital assets		(4,460)	
Contribution of infrastructure assets		416,033	
Depreciation		(1,611,236)	
Change in net position - US GAAP basis		120,120	
Fund balance, beginning of year		33,345,000	
Fund balance, end of year		<u>\$ 33,465,120</u>	