

**STEAMBOAT LAKE WATER AND
SANITATION DISTRICT**

Financial Statements

December 31, 2013

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, 2013, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2013, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America 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 11 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Catterson + Company, P.C.

Steamboat Springs, Colorado
May 5, 2014

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Net Position
December 31, 2013

Assets:

Current assets:

Cash and cash equivalents	\$ 296,225
Accounts receivable	11,826
Due from other governments	31,092
Prepaid expenses	12,119
Property taxes receivable	<u>65,245</u>

Total current assets 416,507

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>2,533,271</u>
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Total assets 2,949,778

Liabilities:

Current liabilities:

Accounts payable and accrued expenses	10,145
Accrued interest payable	8,951
Current portion of notes payable	<u>28,053</u>

Total current liabilities 47,149

Noncurrent liabilities:

Notes payable	<u>509,002</u>
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Total liabilities 556,151

Deferred Inflows of Resources:

Deferred property tax revenues	<u>65,245</u>
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Total deferred inflows of resources 65,245

Net Position:

Net investment in capital assets	1,996,216
Restricted for:	
Emergencies	9,305
Unrestricted	<u>322,861</u>

Total net position \$ 2,328,382

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

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2013

Operating revenues:

Charges for services:	
Water fees	\$ 80,400
Sewer fees	80,400
Availability of service fees	36,600
Other	<u>1,253</u>

Total operating revenues	<u>198,653</u>
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Operating expenses:

Water distribution and treatment:	
Wages and benefits	10,450
Repairs and maintenance	15,782
Professional fees	3,771
Utilities	6,182
Water treatment	9,959
Other	710

Wastewater collection and treatment:	
Wages and benefits	14,682
Repairs and maintenance	16,816
Utilities	16,360
Wastewater treatment	1,787
Other	2,912

Administration:	
Professional fees	11,411
Insurance	8,374
Snowplowing	6,517
Tax collection fees	2,202
Other	3,453
Depreciation	<u>116,184</u>

Total operating expenses	<u>247,552</u>
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Operating income (loss)	<u>(48,899)</u>
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Non-operating revenues (expenses):

Property taxes	73,164
Specific ownership taxes	4,629
Grants	30,824
Interest income	2,912
Interest expense	<u>(27,743)</u>

Total non-operating revenues	<u>83,786</u>
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Change in net position	34,887
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Net position, beginning of year	<u>2,293,495</u>
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Net position, end of year	<u><u>\$ 2,328,382</u></u>
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The accompanying notes are an integral part of these financial statements.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 197,559
Cash payments to suppliers for goods or services	(117,186)
Cash payments to employees for services	<u>(25,132)</u>
Net cash provided by operating activities	<u>55,241</u>
Cash flows from noncapital financing activities:	
Taxes collected	<u>77,981</u>
Net cash provided by noncapital financing activities	<u>77,981</u>
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(26,718)
Interest payments on long-term debt	(28,188)
Purchase of capital assets	(85,766)
Proceeds from grants	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(140,672)</u>
Cash flows from investing activities:	
Interest received	<u>2,912</u>
Net cash provided by investing activities	<u>2,912</u>
Net change in cash and cash equivalents	(4,538)
Cash and cash equivalents, beginning of year	<u>300,763</u>
Cash and cash equivalents, end of year	<u><u>\$ 296,225</u></u>
Reconciliation of operating income (loss) to net cash provided by activities:	
Operating income (loss)	\$ (48,899)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	116,184
(Increase) decrease in:	
Accounts receivable	(1,094)
Prepaid expenses	(7,184)
(Decrease) increase in:	
Accounts payable and accrued expenses	<u>(3,766)</u>
Net cash provided by operating activities	<u><u>\$ 55,241</u></u>

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

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2013

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 accounting principles generally accepted in the United States of America 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 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, thus, 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, and highly liquid investment pool funds. Investments are stated at fair value.

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. District management believes all accounts receivable to be fully collectible at December 31, 2013. 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, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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.

New Accounting Pronouncement

Effective January 1, 2013, the District adopted the provisions of the following GASB Statement:

- GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". The effect of this adoption is to establish accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities, as deferred outflows of resources or deferred inflows of resources.

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 during 2013.

Compliance

The District's expenditure exceeded appropriations by \$21,238 during the year ended December 31, 2013. The excess expenditures were for capital projects funded partially from grants. This may be a violation of CRS.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2013

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 \$9,305 of the December 31, 2013 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 at December 31, 2013 was \$15,890 and bank balances were \$18,840. All of the bank balances at December 31, 2013 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.

Investments

At December 31, 2013, the District had \$278,651 invested in the Colorado Government Liquid 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 advisor for COLOTRUST PLUS+ is Public Trust Advisors LLC (PTA), 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+ 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 PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

The District's investments are subject to interest rate, 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.

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2013

Note 3: Detailed Notes on the Fund (continued)

Capital Assets

Capital asset activity for the year ended December 31, 2013 is summarized below:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land	\$ 181,884	\$ -	\$ -	\$ 181,884
Wells	68,626	72,187	-	140,813
Total non-depreciable capital assets	250,510	72,187	-	322,697
Depreciable capital assets:				
Water system and equipment	1,345,070	9,120	-	1,354,190
Wastewater system and equipment	2,250,772	4,459	-	2,255,231
Total depreciable capital assets	3,595,842	13,579	-	3,609,421
Less: accumulated depreciation	(1,282,663)	(116,184)	-	(1,398,847)
Net depreciable capital assets	2,313,179	(102,605)	-	2,210,574
Total capital assets, net	\$ 2,563,689	\$ (30,418)	\$ -	\$ 2,533,271

Long-Term Liabilities

The District had the following long-term liabilities outstanding at December 31, 2013:

State of Colorado – Energy and Mineral Impact Assistance Program Loan (2004)

The District entered into a \$50,000 loan agreement with the State of Colorado, Department of Local Affairs (DOLA) during 2004. The note is payable in annual installments of \$4,046 on September 1 including interest at 5% through maturity on September 1, 2024. Proceeds of the note were used for improvements to the District's wastewater treatment system.

State of Colorado – Energy and Mineral Impact Assistance Program Loan (2007)

The District entered into a \$649,000 loan agreement with DOLA during 2007. The note is payable in annual installments of \$50,861 on September 1 including interest at 5% through maturity on September 1, 2027. Proceeds of the note were used for improvements to the District's wastewater treatment system.

Activity in long-term liabilities for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
DOLA (2004)	\$ 35,857	\$ -	\$ (2,253)	\$ 33,604	\$ 2,365
DOLA (2007)	527,916	-	(24,465)	503,451	25,688
	\$ 563,773	\$ -	\$ (26,718)	\$ 537,055	\$ 28,053

STEAMBOAT LAKE WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2013

Note 3: Detailed Notes on the Fund (continued)

Long-Term Liabilities (continued)

Aggregate debt service requirements at December 31, 2013 were as follows:

	Principal	Interest	Total
2014	\$ 28,053	\$ 26,853	\$ 54,906
2015	29,456	25,450	54,906
2016	30,929	23,978	54,907
2017	32,475	22,430	54,905
2018	34,098	20,807	54,905
2019-2023	197,841	76,691	274,532
2024-2027	184,203	23,286	207,489
	\$ 537,055	\$ 219,495	\$ 756,550

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 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.

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 May 5, 2014, 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, 2013

	Original and Final Budget	Actual	Variance
Revenues:			
Charges for services:			
Water fees	\$ 82,200	\$ 80,400	\$ (1,800)
Sewer fees	82,200	80,400	(1,800)
Availability of service fees	36,000	36,600	600
Taxes:			
General property	73,000	73,164	164
Specific ownership	4,000	4,629	629
Grants	-	30,824	30,824
Interest	2,500	2,912	412
Other	1,550	1,253	(297)
Total revenues	281,450	310,182	28,732
Expenditures:			
Water distribution and treatment:			
Wages and benefits	11,000	10,450	550
Repairs and maintenance	35,000	15,782	19,218
Professional fees	25,000	3,771	21,229
Utilities	7,000	6,182	818
Water treatment	4,000	9,959	(5,959)
Other	3,150	710	2,440
Wastewater collection and treatment:			
Wages and benefits	15,000	14,682	318
Repairs and maintenance	25,000	16,816	8,184
Utilities	16,500	16,360	140
Wastewater treatment	2,000	1,787	213
Other	3,100	2,912	188
Administration:			
Professional fees	17,200	11,411	5,789
Insurance	10,000	8,374	1,626
Snowplowing	6,000	6,517	(517)
Tax collection fees	2,500	2,202	298
Other	3,000	3,453	(453)
Debt service:			
Principal	26,718	26,718	-
Interest	28,189	27,743	446
Capital outlay	10,000	85,766	(75,766)
Total expenditures	250,357	271,595	(21,238)
Net income (loss) - budgetary basis	\$ 31,093	38,587	\$ 7,494
Adjustments to US GAAP basis:			
Capitalized expenditures		85,766	
Debt principal payments		26,718	
Depreciation		(116,184)	
Change in net position - US GAAP basis		34,887	
Fund balance, beginning of year		2,293,495	
Fund balance, end of year		\$ 2,328,382	