

**SNAKE RIVER WATER DISTRICT  
DILLON, COLORADO**

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**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

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**DECEMBER 31, 2018**



**Crady, Puca & Associates**

*Certified Public Accountants & Consultants*

**SNAKE RIVER WATER DISTRICT  
DILLON, COLORADO**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Snake River Water District  
Dillon, Colorado

We have audited the accompanying financial statements of the Snake River Water District (District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 of 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 the Snake River Water District, as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Period Adjustments***

As described in Note 7 to the financial statements, the beginning net position was restated due to correction of errors related to contributed assets and deferred tap fees. Our opinion was not modified with respect to the restatement.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through xii 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information on pages 15 and 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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.

### *Prior year summarized comparative information*

The prior year summarized comparative information has been derived from the District's 2017 financial statements, except for the amounts restated as noted in Note 7, and in our report dated May 8, 2018, we expressed an unmodified opinion on those statements. The information presented herein as of and for the year ended December 31, 2017, is consistent with the audited financial statements from which it has been derived, with the exception of the restatement.

*Crady, Puca & Associates*

Aurora, CO 80016  
May 14, 2019

# *Management's Discussion and Analysis*

## *2018*

This Management's Discussion and Analysis (MD&A) for the Snake River Water District provides readers with an overview of the District's financial status and performance for the fiscal year ended on December 31, 2018.

This MD&A includes the following sections:

- I. Financial Highlights
- II. Overview of Financial Statements
- III. Condensed Comparative Data
- IV. Overall Financial Analysis
- V. Analysis of Budget Variations
- VI. Capital Assets
- VII. Discussion of Currently Known Facts, Decisions or Conditions of Future Significance
- VIII. Additional Financial Information

In reviewing this MD&A, please note that Sections II, III and IV are all interrelated. Section II provides an outline of the purpose of each financial statement, Section III provides the basic data for each statement and Section IV provides discussion on each financial component presented in Section III.

## **I. Financial Highlights**

The Snake River Water District continues its history of successful financial management. Some of the more notable indicators of the District's financial health include:

1. At the end of 2018, the District's Total Net Position increased, over the prior year, by \$2,777,740 bringing the District's Total Net Position to \$24,833,795.
2. The District's overall assets increased from \$22,063,111 in 2017 to \$25,062,481 in 2018.

The District expects \$6,671,750 in capital expenditures for system improvements in 2019, which is primarily comprised of expenses for constructing the new Base 3 Water Treatment Facility. This project is necessary to assure continued water quality supply and to facilitate additional treatment processes to meet current and potential future CDPHE standards. Total revised cost projections for the Base 3 water treatment facility are approximately \$9,900,000. The new facility should be operational in summer 2020. The costs are approximately \$6,000,000 more than originally estimated in 2012.

At the Snake River Water District Board's regular meeting in November 2018 the Board reviewed anticipated future capital expenditures, large repairs in an aging infrastructure, and projections of revenue. The forecasts of Cash and Investment Balance indicated that the District will not have funding to complete the Base 2 Storage Tank project in 2021. The Board concluded that a fee increase would be necessary. The Board decided to begin public forums concerning increasing tap and connection fees. The Board also directed Administrator Price to draft a strategy for increasing water user fees.

Management and the SRWD Board of Directors support financial projections for the annual budget which follow economic trends. Budgets are prepared with projected capital improvements and maintenance outlay for the year. Funds not utilized by December 31<sup>st</sup> are retained in cash & investments for future capital projects.

## **II. Overview of the Financial Statements**

The Financial Statements of the District utilize the accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. All of these statements pertain to the District's only fund which is a Proprietary Fund.

*Statement of Net Position* (see page vi) includes statistics on the District's assets and liabilities and delineates information about the nature and amounts of investments placed in resources (assets) and the obligations to the District's creditors (liabilities).

*Statement of Revenues, Expenses and Changes in Net Position* (see page vii) identifies the District's income and expenses for the years ended December 31, 2018 and 2017. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual costs through user fees and other revenues.

### III. CONDENSED COMPARATIVE DATA

#### STATEMENT OF NET POSITION

	<u>2018</u>	<u>2017</u> <u>(Restated)</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Assets</b>			
Current Assets	\$ 9,400,953	\$ 6,652,442	\$ 2,748,511
Capital Assets, net	12,193,463	12,099,576	93,887
Other Assets	3,468,065	3,311,093	156,972
<b>Total Assets</b>	<u>25,062,481</u>	<u>22,063,111</u>	<u>2,999,370</u>
<b>Liabilities</b>			
Current Liabilities	227,171	5,541	221,630
Non-current Liabilities	<u>1,515</u>	<u>1,515</u>	-
Total Liabilities	<u>228,686</u>	<u>7,056</u>	<u>221,630</u>
<b>Net Position</b>			
Invested in Capital Assets	12,193,463	12,099,576	93,887
Restricted	7,310	5,940	1,370
Unrestricted	<u>12,633,022</u>	<u>9,950,539</u>	<u>2,682,483</u>
<b>Total Net Position</b>	<u>\$ 24,833,795</u>	<u>\$ 22,056,055</u>	<u>\$ 2,777,740</u>

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2018	2017 (Restated)	Increase (Decrease)
<b>Operating Revenues</b>	\$ 1,345,619	\$ 1,230,408	\$ 115,211
Less: Operating Expenses	721,770	701,363	20,407
Less: Depreciation	308,723	269,635	39,088
<b>Net Income from Operations</b>	315,126	259,410	55,716
Non-operating Revenue	2,286,714	548,415	1,738,299
Capital Contributions	175,900	221,732	(45,832)
<b>Increase in Net Position</b>	2,777,740	1,029,557	1,748,183
<b>Net Position, Beginning of Year, as previously reported</b>	21,726,323	20,918,498	807,825
Prior period adjustment	329,732	108,000	221,732
<b>Net Position, Beginning of Year, as restated</b>	22,056,055	21,026,498	1,029,557
<b>Net Position, End of Year</b>	\$ 24,833,795	\$ 22,056,055	\$ 2,777,740

## **IV. Overall Financial Analysis**

### *Assets*

Current assets of the District are principally cash, short-term deposits, and investments. Current assets increased dramatically from \$6,652,442 in 2017 to \$9,400,953 in 2018. This increase of \$2,748,511 is largely attributable to the District's extraordinary tap fees of \$2,042,700.

Total net capital assets increased by \$93,887. There were capital contributions from water main extension projects of \$175,900. The depreciation expense for 2018 was \$308,723.

The District's overall assets increased from \$22,063,111 in 2017 to \$25,062,481 in 2018.

### *Liabilities*

Total liabilities increased from \$7,056 in 2017 to \$228,686 in 2018. The increase of \$221,630 is due to additional year-end accrued expenses and accounts payable attributable to the Base 3 project expenditures.

### *Revenue*

Total operating revenue for fiscal year 2018 increased by \$115,211 to \$1,345,619 from \$1,230,408 in 2017. Non-operating revenue received by the District increased by \$1,738,299 in 2018 with the District receiving \$2,286,715 in non-operating revenue in 2018 compared to \$548,415 in 2017. This increase in non-operating revenue is principally attributable to receiving \$1,614,940 more in tap fees (system investment fees) in 2018 than the District received in 2017 due to increased development in the Keystone area.

### *Expenses*

Total operating expenses for the District were \$721,770 in 2018, up slightly from \$701,363 in 2017. The \$20,407 increase was mostly attributable to higher lab fees, chemicals, and utilities. The District's Operations Superintendent anticipates increased expenses for maintenance and repairs in the future because of failures in the aging water main infrastructure.

### *Increase in Net Position*

The increase in the District's net position in 2018 was \$2,777,740, bringing the District's total net position as of December 31, 2018 to \$24,833,795. As discussed in Note 7 of the audited financial statements on page 13, net position as of December 31, 2018 was increased by \$329,372 due to prior period adjustments for contributed capital and tap fees recognized in 2017.

## **V. Analysis of Budgetary Variations**

Final expenditures for 2018 are presented on page 15 of this Audit Report along with the 2018 District budget as approved by the Board of Directors. Significant variations between what was approved by the Board and what was realized are discussed below:

1. The single largest variance from budget for 2018 was Capital Improvement Expenditures. The budget of \$4,083,928 reflected anticipated progress on a major system improvement project for Base 3, and the work began later than expected. \$226,710 of these expenses were booked to Construction in Progress in 2018. The result was a variance of \$3,857,218 under budget.
2. The next largest variance from budget was System Investment Fees. Tap Fees were \$1,802,700 (751%) above budget. This is attributed to new construction in the District. Notably, the Wintergreen development paid \$1,411,620.
3. Operating Revenue from Water User Fees, Temporary Water Fees, and Connection Fees received were \$1,345,619 and 10% above budget mostly due to growth in customers via new construction in the District.
4. None of the budgeted contingency funds for either operations/maintenance or administration were used.

## VI. Capital Assets

The current financial management practice of the Board of Directors is to pay cash for general system improvements and to not subject the populace of the District to financing. All funds invested by the District are in compliance with Colorado Revised Statutes, Article 75 Section 24-75-601.1 - *Legal Investments of Public Funds*.

The District addresses asset replacement funding and reports on the funds available during the budget process. The Board, in adopting the budget for 2018, approved Fund Projections for 2018. Highlights of these projections relating to capital assets included:

- i) \$4,083,928 to be spent on major capital improvements in 2018 including a new Base 3 water treatment facility and a new Base 2 tank.
- ii) \$1,500,000 being held in the emergency reserve account
- iii) \$4,281,497 estimated as the year-end balance for 2018 to fund future capital/system improvements.

The District's total depreciable capital assets as of December 31, 2017 was \$13,228,632 and \$13,404,532 in 2018; thus, the District added \$175,900 in capital improvements. The District's accumulated depreciation increased from \$8,726,167 in 2017 to \$9,034,890 in 2018.

	<b>2018</b>	<b>2017</b> <b>(Restated)</b>	<b>Increase</b> <b>(Decrease)</b>
Collection, storage and distribution system	\$ 11,896,396	\$ 11,720,496	\$ 175,900
Buildings and improvements	1,131,547	1,131,547	-
General equipment	169,104	169,104	-
Computer software and equipment	207,485	207,485	-
	<u>13,404,532</u>	<u>13,228,632</u>	<u>175,900</u>
Less: accumulated depreciation	<u>(9,034,890)</u>	<u>(8,726,167)</u>	<u>308,723</u>
Net depreciable capital assets	4,369,642	4,502,465	(132,823)
Land and water rights	7,553,618	7,553,618	-
Construction in Progress	<u>270,203</u>	<u>43,493</u>	<u>226,710</u>
			-
Net capital assets	<u>\$ 12,193,463</u>	<u>\$ 12,099,576</u>	<u>\$ 93,887</u>

## **VII. Discussion of Currently Known Facts, Decisions or Conditions of Future Significance**

The fee increase adopted by the District in 2013, coupled with tap fees and other revenue, has become insufficient to fund various capital improvement projects identified in the Water Utility Master Plan prepared by Tetra Tech in 2012. This plan identified eight major improvements at a cost of over \$9,000,000. With current cost estimates for the Base 3 water treatment facility reaching approximately \$9,900,000 and Base 2 storage tank approximately \$5,100,000, the total cost of improvements to implement this plan could exceed the 2012 estimate by \$6,000,000. The cost of construction in Keystone has been increasing at a much faster rate than inflation, and we expect that trend to continue.

While it is difficult to project capital expenditures into the future, the Board considered a Cash and Investment Balance Projection at the November 13, 2018 Board meeting. This projection included a starting investment balance of \$10,696,728 in 2019. With a free cash flow of \$439,526, lease and investment income of \$110,328, tap and development review fees of \$320,000, and system improvement expenses of \$6,671,750, the expected year end investment balance for 2019 was \$4,894,832.

Continuing this projection for 2020, with a free cash flow of \$400,030, lease and investment income of \$58,780, tap and development review fees of \$500,000, and system improvement expenses of \$2,956,667, the expected year end investment balance for 2020 was \$2,896,976.

Continuing this projection for 2021, with a free cash flow of \$355,882, lease and investment income of \$38,954, tap and development review fees of \$100,000, and system improvement expenses of \$3,969,000, the expected year end investment balance for 2021 was negative \$577,188. Meaning, the District would not have the funds to complete the Base 2 Storage Tank project.

The District passed a resolution at the February 12, 2019 meeting to increase tap and connection fees. At the same meeting, the Board instructed the Administrator to create a strategy for a water user fee increase. These actions are intended to position the District to have adequate funding needed to complete the Base 3 and Base 2 capital improvements, as well as maintain an investment balance in the future to cover major repairs in the water infrastructure.

The District closed a purchase of the parcel needed for the new Base 3 water treatment plant on March 8, 2019. Engineering and architecture for the new plant was almost complete as of May 1, 2019, and Summit County approvals for the building plans have been finalized. Agreements have been signed with the HOAs adjacent to the property, so the old plant has been decommissioned with demolition scheduled to begin in the first week of May. The agreements with the general contractor, GE Johnson, have been signed. The new water treatment facility is scheduled to be operational by July 1, 2020.

## **VIII. Additional Financial Information**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have any questions regarding the information included in this Management's Discussion and Analysis report, please contact Scott Price – Administrator/Executive Director - Snake River Water District - P.O. Box 2595, Dillon, CO 80435 - (970) 468-0328 - [executivedirector@snakeriverwater.com](mailto:executivedirector@snakeriverwater.com). Please visit [www.snakeriverwater.com](http://www.snakeriverwater.com) for the Agenda posting and scheduled meeting dates.

**SNAKE RIVER WATER DISTRICT****Statement of Net Position****December 31, 2018****(With Summarized Financial Information as of December 31, 2017)**

	<b>2018</b>	<b>2017 (Restated)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,571,461	\$ 2,878,207
Accounts receivable	22,687	9,256
Accrued interest receivable	18,785	16,726
Prepaid expenses	10,719	10,236
Deposits and investments	3,777,301	3,738,017
Total current assets	<u>9,400,953</u>	<u>6,652,442</u>
Noncurrent assets:		
Deposits and investments	3,463,009	3,306,037
Capital assets:		
Capital assets, not being depreciated	7,823,821	7,597,111
Capital assets, being depreciated, net	4,369,642	4,502,465
	<u>12,193,463</u>	<u>12,099,576</u>
Deposits	5,056	5,056
Total noncurrent assets	<u>15,661,528</u>	<u>15,410,669</u>
<b>Total assets</b>	<u>25,062,481</u>	<u>22,063,111</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	227,171	5,541
Non-current liabilities:		
Security deposits payable	1,515	1,515
Total non-current liabilities	<u>1,515</u>	<u>1,515</u>
<b>Total liabilities</b>	<u>228,686</u>	<u>7,056</u>
<b>NET POSITION</b>		
Net investment in capital assets	12,193,463	12,099,576
Restricted	7,310	5,940
Unrestricted	12,633,022	9,950,539
<b>Total net position</b>	<u>\$ 24,833,795</u>	<u>\$ 22,056,055</u>

The accompanying notes are an integral part of this statement.

**SNAKE RIVER WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2018**  
**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	2018	2017 (Restated)
<b>Operating revenues:</b>		
Water fees	\$ 1,345,619	\$ 1,230,408
Total operating revenues	<u>1,345,619</u>	<u>1,230,408</u>
<b>Operating expenses:</b>		
Operations and maintenance:		
Water treatment contract	229,118	222,225
Repairs and maintenance	138,518	140,871
Utilities	61,779	52,851
Chemicals, lab fees and supplies	18,509	10,891
Engineering and design	2,497	14,085
Total operations and maintenance	<u>450,421</u>	<u>440,923</u>
General and administration:		
Administration contract	190,326	184,604
Audit fees	8,747	9,045
Computer support	7,016	5,153
Water rights engineering	8,935	3,022
Insurance	23,543	23,190
Legal fees	9,030	9,331
Forest Service and water rights leases	8,258	8,434
Office supplies and expense	8,695	8,963
Election expense	53	--
Miscellaneous	2,950	3,700
Board expenses	3,796	4,998
Total general and administration	<u>271,349</u>	<u>260,440</u>
Total operating expenses	<u>721,770</u>	<u>701,363</u>
Operating income before depreciation	<u>623,849</u>	<u>529,045</u>
Depreciation	<u>308,723</u>	<u>269,635</u>
<b>Operating income</b>	<u>315,126</u>	<u>259,410</u>
<b>Non-operating revenues:</b>		
Investment income	191,681	81,411
System investment fees	2,042,700	427,760
Rental income	30,372	26,919
Development review fees	21,961	12,325
Total non-operating revenues	<u>2,286,714</u>	<u>548,415</u>
<b>Income before capital contributions</b>	<u>2,601,840</u>	<u>807,825</u>
Capital contributions of assets (Note 7)	<u>175,900</u>	<u>221,732</u>
<b>Change in net position</b>	<u>2,777,740</u>	<u>1,029,557</u>
Net position, beginning of year, as previously reported	21,726,323	20,918,498
Prior period adjustment (Note 7)	<u>329,732</u>	<u>108,000</u>
Net position, beginning of year, restated	<u>22,056,055</u>	<u>21,026,498</u>
<b>Net position, end of year</b>	<u>\$ 24,833,795</u>	<u>\$ 22,056,055</u>

The accompanying notes are an integral part of this statement.

**SNAKE RIVER WATER DISTRICT**

**Statement of Cash Flows**

**For the Year Ended December 31, 2018**

**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	<b>2018</b>	<b>2017 (Restated)</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 1,332,188	\$ 1,223,958
Cash paid to suppliers of goods and services	(500,623)	(768,575)
Net cash provided by operating activities	<u>831,565</u>	<u>455,383</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets	(226,710)	-
System investment fees	2,042,700	428,085
Net cash provided by capital financing activities	<u>1,815,990</u>	<u>428,085</u>
<b>Cash flows from non-capital financing activities:</b>		
Other non-operating revenues	52,333	26,919
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	3,473,000	1,780,000
Purchases of investments	(3,667,991)	(2,825,064)
Interest on cash and investments	188,357	89,455
Net cash (used in) investing activities	<u>(6,634)</u>	<u>(955,609)</u>
Net increase (decrease) in cash and cash equivalents	2,693,254	(45,222)
Cash and cash equivalents, beginning of year	<u>2,878,207</u>	<u>2,923,429</u>
Cash and cash equivalents, end of year	<u>\$ 5,571,461</u>	<u>\$ 2,878,207</u>
<b>Reconciliation of operating income to net cash provided by operations</b>		
Operating income	<u>\$ 315,126</u>	<u>\$ 259,410</u>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation expense	308,723	269,635
(Increase) decrease in:		
Accounts receivable	(13,431)	(6,450)
Prepaid expenses	(483)	(3,094)
(Decrease) increase in:		
Accounts payable	221,630	(64,118)
Total adjustments	<u>516,439</u>	<u>195,973</u>
Net cash provided by operating activities	<u>\$ 831,565</u>	<u>\$ 455,383</u>
<b>Noncash capital activities:</b>		
Contributions of assets	<u>\$ 175,900</u>	<u>\$ 221,732</u>
<b>Noncash investing activities:</b>		
Fair value increase (decrease) on investments	<u>\$ 1,265</u>	<u>\$ (14,841)</u>

The accompanying notes are an integral part of this statement.

**1. Summary of Significant Accounting Policies**

The accounting and reporting policies of the Snake River Water District, Dillon, Colorado, (the District), conform to accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements.

**Reporting Entity**

The District is a statutory, single-purpose, Special District governed by a seven-member Board of Directors pursuant to provisions of the Colorado Special District Act, C.R.S. Title 32. Qualified electors in the District elect the members of the Board. As required by US GAAP, these financial statements present the activities of the District which is legally separate and financially independent of other state and local governments.

The District provides domestic and fire protection water for its service area, which is located in the Keystone Base Area of Summit County, Colorado. The boundaries of the District include portions of T5S R76W with portions of Section 13, 14, 18, 19, 20, 22, 23, and 24. These are further defined by the Snake River Water District Boundary Map dated January 5, 2007.

The District complies with GASB 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

In November 2012, the District's Board passed a resolution recognizing the District as a "water activity enterprise" under Article X, Section 20 of the Colorado Constitution.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The District's 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 when a liability is incurred, regardless of the timing of the related cash flows.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds are used by governments to report any activity for which a fee is charged to external users for goods or services.

The District's water is provided on a metered rate to its users.

**1. Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations, the delivery of water. Operating expenses for the District include costs of sales and services, operating expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including system investment (tap) fees and interest income are reported as non-operating 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 use unrestricted resources as they are needed.

**Assets, Liabilities and Net Position**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less, and which are not held as part of an investment portfolio, to be cash equivalents.

**Investments**

Investments are reported at fair value and are classified as current or non-current based on their maturity date.

**Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**Receivables**

Accounts receivable consists primarily of Water User Fees earned as of December 31, 2018. The District considers all receivables collectible as of December 31, 2018; therefore, no allowance has been recorded.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities and Net Position (continued)**

**Capital Assets**

Capital assets include land, water rights, construction in progress, buildings and improvements, water collection, storage and distribution system, general equipment, computer software, and equipment. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Capital assets, excluding land, water rights and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Collection, storage and distribution system	10-50
Buildings and improvements	10-40
General equipment	5-10
Computer software and equipment	3-10

**Net Position**

The District classifies net position into three components:

- Net position invested in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of assets that are restricted by the District's creditors, by state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted net position – all remaining items of net position are reported in this category.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Property Taxes**

Currently, the Board levies no property taxes.

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities and Net Position (continued)**

**Comparative Data**

The financial statements contain certain prior year summarized comparative information. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**2. Stewardship, Compliance and Accountability**

**Budgetary Information**

The District's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) with the following exception: capital outlays are treated as expenses for budget purposes. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

Prior to October 15 of each year, the District Administrator (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget, for the fund, includes proposed expenses and the means of financing them.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

**SNAKE RIVER WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018**

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**3. Detailed Notes Concerning the Fund**

**Deposits and Investments**

Deposits and investments are classified in the accompanying financial statements as follows as of December 31, 2018:

Cash and cash equivalents	\$ <u>5,571,461</u>
Current assets:	
Money market fund	277,972
Certificates of deposit - negotiable	2,506,609
U.S. Government Obligations and GSEs	992,720
Total current	<u>3,777,301</u>
Noncurrent assets:	
Certificates of deposit – non-negotiable	245,000
Certificates of deposit – negotiable	2,430,889
U.S. Government Obligations and GSEs	787,120
Total non-current	<u>3,463,009</u>
Total deposits and investments	\$ <u>12,811,771</u>

**Custodial Credit Risk:** The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

As of December 1, 2014, the District adopted a formal investment policy, which is more restrictive than the Colorado Revised Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest. The allowed investment instruments may include but are not limited to:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

**SNAKE RIVER WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018**

**3. Detailed Notes Concerning the Fund (continued)**

**Deposits and Investments (continued)**

Investments (continued)

As of December 31, 2018, the District had invested \$5,484,132 in the Colorado Local Government Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating COLOTRUST. Investments of COLOTRUST are limited to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by participating governments. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method and therefore has been classified as cash and cash equivalents in the Statement of Net Position. There are no unfunded commitments and there is no redemption notice period.

**Interest Rate Risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District limits its investments to those with lower risk for market fluctuations. In addition, the District's investment policy limits investment maturities to five years or less.

**Credit Risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of December 31, 2018, COLOTRUST had a Standard and Poor's rating of AAAm. The District's two money market funds are not rated, one of which is included in cash and cash equivalents in the above table.

As of December 31, 2018, the District's investments in U.S. government agency securities were rated AA+ by Standard and Poor's.

The District held the following investments as defined by GASB 40 as of December 31, 2018:

Investment Type	Maturities			Total Fair Value	% of Portfolio held
	Less Than 1 Year	1-3 Years	3-5 Years		
Certificates of Deposit - negotiable	\$ 2,506,609	\$ 2,430,889	\$ --	\$ 4,937,498	73.5%
Federal Farm Credit Banks	496,880	--	--	496,880	7.4%
Federal Home Loan Bank	--	294,840	--	294,840	4.4%
Federal Home Loan Mortgage Corp	495,840	492,280	--	988,120	14.7%
	<u>\$ 3,499,329</u>	<u>\$ 3,218,009</u>	<u>\$ --</u>	<u>\$ 6,717,338</u>	<u>100.0%</u>

The above investments of \$6,717,338 which include negotiable certificates of deposit and U.S. sponsored mortgage-backed securities, are categorized as Level 2 investments and are valued using a matrix pricing technique.

**SNAKE RIVER WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018**

**3. Detailed Notes Concerning the Fund (continued)**

**Capital Assets**

Capital asset activity for the year ended December 31, 2018 was as follows:

	<b>(Restated) Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land and water rights	\$ 7,553,618	\$ --	\$ --	\$ 7,553,618
Construction in progress	43,493	226,710	--	270,203
Total capital assets, not being depreciated	<u>7,597,111</u>	<u>226,710</u>	<u>--</u>	<u>7,823,821</u>
Capital assets being depreciated:				
Collection, storage and distribution system	11,720,496	175,900	--	11,896,396
Buildings and improvements	1,131,547	--	--	1,131,547
General equipment	169,104	--	--	169,104
Computer software and equipment	207,485	--	--	207,485
	<u>13,228,632</u>	<u>175,900</u>	<u>--</u>	<u>13,404,532</u>
Less accumulated depreciation for:				
Collection, storage and distribution system	(7,974,577)	(264,229)	--	(8,238,806)
Buildings and improvements	(412,530)	(31,381)	--	(443,911)
General equipment	(148,642)	(3,410)	--	(152,052)
Computer software and equipment	(190,418)	(9,703)	--	(200,121)
	<u>(8,726,167)</u>	<u>(308,723)</u>	<u>--</u>	<u>(9,034,890)</u>
Total capital assets being depreciated, net	<u>4,502,465</u>	<u>(132,823)</u>	<u>--</u>	<u>4,369,642</u>
<b>Total capital assets, net</b>	<b>\$ <u>12,099,576</u></b>	<b>\$ <u>93,887</u></b>	<b>\$ <u>--</u></b>	<b>\$ <u>12,193,463</u></b>

**Net Position**

A Capital Asset Acquisition study was completed by management in 2005 to analyze 20-year historical asset acquisitions and plan for future acquisitions. At that time, the District had established an asset replacement and reserve policy. In 2016, this policy was further clarified by Board resolution by establishing the Emergency Reserve Account which designated \$1,500,000 in unrestricted net position to be set aside for large, unanticipated repairs to the District's infrastructure. As of December 31, 2018, the Emergency Reserve Account remains at \$1,500,000.

The Board also designated \$5,192,216 for capital improvements. The capital improvements reserve will be increased annually by net operating and non-operating income before depreciation expense and will be decreased by capital outlay costs. As of December 31, 2018, the designated portion of unrestricted net position related to this capital improvements reserve was \$10,316,146.

**SNAKE RIVER WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018**

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**3. Detailed Notes Concerning the Fund (continued)**

**Net Position (continued)**

In addition, the District established a maintenance reserve for building improvements for each of the buildings the District subleases (see note 4 for a description of the subleases). As of December 31, 2018, the designated portion of unrestricted net position related to this maintenance reserve was \$28,188.

**4. Operating Leases**

The District subleases space in its maintenance building under three operating leases, all of which have 5-year terms. Two of the leases renew automatically for 19 additional 5-year terms. The third lease, which expires in 2020, has the option of one more 5-year renewal. The sub-lessees pay a minimum monthly rent plus maintenance reserves. Future minimum rental income amounts, including reserves are as follows:

Year ending <u>December 31,</u>	
2019	\$ 27,342
2020	8,155
2021	<u>716</u>
Total	\$ <u>36,213</u>

Rental income and maintenance for the year ended December 31, 2018 was \$30,372.

**5. Other Information**

**Contractual Services Agreements**

The District is obligated under an agreement with an outside party for the maintenance, repair and general operations of its facilities to include wells, pumping and plant equipment, water and service lines, and controls. The agreement automatically renews for successive one-year terms. However, either party may terminate this agreement, for any reason, with ninety days written notice to the other party. For the year ended December 31, 2018, the District incurred \$229,118 in compliance with the terms of this agreement.

The District is obligated under an agreement with an outside party to provide administrative and executive services to the District. The agreement automatically renews for successive one-year terms. However, either party may terminate this agreement, for any reason, with ninety days written notice to the other party. For the year ended December 31, 2018, the District incurred \$190,326 in compliance with the terms of this agreement.

**5. Other Information (continued)**

**Revenue Concentration**

Vail Resorts, Inc. operates the Keystone resort and ski area. Properties owned by them are estimated to represent approximately 60% of the water fees collected by the District during 2018.

**Risk Management**

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; and natural disasters for which the District carries commercial insurance.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by an intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability coverage. The District's management services contractors, Water Works West, LLC and Mountain Legacy Services, LLC, carry worker's compensation on all their employees. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2018.

**Tax, Spending and Debt Limitations**

Article X, Section 20, of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax, spending, and revenue and debt limitations which apply to the State of Colorado and all local governments. 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 increase with certain exceptions. Revenue in excess of the "fiscal year spending" limit must be refunded unless the voters approve retention of such revenue.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

**SNAKE RIVER WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018**

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**5. Other Information (continued)**

**Tax, Spending and Debt Limitations (continued)**

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 emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved a portion of its December 31, 2018 year-end net position for emergencies as required under TABOR of \$7,310, which is the approximate required reserve as of December 31, 2018.

The District’s management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

**6. Related party**

During 2018, the District hired RS May & Associates as its construction manager for the Base III Treatment Plant project. RS May & Associates is owned by Randy May who is a member of the Board of Directors. During the year ended December 31, 2018, the District incurred \$16,055 in project management fees, of which \$5,135 is payable at year end and included in accounts payable in the Statement of Net Position as of December 31, 2018.

**7. Prior period adjustments**

During 2018, it was discovered that two water lines had been contributed and should have been recognized as capital assets and contributed revenue in 2017 in the amount of \$221,732. This correction reduced current year income. As the statements are comparative, the 2017 capital assets have been increased by \$221,732 in the Statement of Net Position and “capital contributions of assets” of \$221,732 are now reflected in the Statement of Revenues, Expenses and Changes in Net Position for the year ended December 31, 2017.

Additional information was discovered during the 2018 audit relating to deferred tap fees which had been recorded in 2014. As prepaid tap fees are deemed non-refundable, these should have been recognized as revenue upon receipt. As of December 31, 2017, there was \$108,000 in deferred tap fees on the statement of net position. As this error occurred prior to 2017, the correction is reflected as a prior period adjustment by increasing January 1, 2017 net position by \$108,000 and decreasing deferred tap fees by the same.

The total effect of these two corrections on beginning net position was as follows:

	2018	2017
Prior period adjustment for contributed capital	\$ 221,732	\$ --
Prior period adjustment for tap fees	108,000	108,000
Net effect on beginning net position	<u>\$ 329,732</u>	<u>\$ 108,000</u>

**8. Subsequent Events**

On March 8, 2019, the District acquired of a parcel of land from Vail Resorts for \$107,000 which is needed for the new Base III water treatment facility.

On April 1, 2019, the District was awarded a grant of \$500,000 from the Department of Local Affairs to be used for the replacement of its Base III water treatment facility.

On April 4, 2019, the District signed construction contracts, including change orders, totaling \$7,087,205, relating to the new Base III water treatment facility.

**OTHER SUPPLEMENTARY INFORMATION**

**SNAKE RIVER WATER DISTRICT**  
**Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)**  
**For the Year Ended December 31, 2018**

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>Revenues:</b>			
Water fees	\$ 1,221,235	\$ 1,345,619	\$ 124,384
Investment income	57,678	191,681	134,003
System investment fees	240,000	2,042,700	1,802,700
Rental income	30,096	30,372	276
Development review fees	7,000	21,961	14,961
Capital contributions of assets	221,732	175,900	(45,832)
<b>Total Revenues</b>	<b>1,777,741</b>	<b>3,808,233</b>	<b>2,030,492</b>
<b>Expenditures:</b>			
Operations and maintenance:			
Water treatment contract	229,118	229,118	-
Repairs and maintenance	200,000	138,518	61,482
Utilities	60,000	61,779	(1,779)
Chemicals, lab fees and supplies	17,900	18,509	(609)
Engineering and design	4,000	2,497	1,503
<b>Total operations and maintenance</b>	<b>511,018</b>	<b>450,421</b>	<b>60,597</b>
General and administration:			
Administration contract	190,327	190,326	1
Audit	8,935	8,747	188
Computer support	8,000	7,016	984
Water rights engineering	10,000	8,935	1,065
Insurance	21,333	23,543	(2,210)
Legal fees	9,000	9,030	(30)
Forest Service and water rights leases	8,402	8,258	144
Office supplies and expense	8,000	8,695	(695)
Election expense	500	53	447
Miscellaneous	5,000	2,950	2,050
Board expenses	5,000	3,796	1,204
<b>Total general and administration</b>	<b>274,497</b>	<b>271,349</b>	<b>3,148</b>
Contingency	75,000	-	75,000
Depreciation	360,052	308,723	51,329
Capital outlay	4,083,928	226,710	3,857,218
<b>Total Expenditures</b>	<b>5,304,495</b>	<b>1,257,203</b>	<b>3,995,963</b>
<b>Revenues over (under) expenditures</b>	<b>\$ (3,526,754)</b>	<b>\$ 2,551,030</b>	<b>\$ (6,077,784)</b>

The accompanying notes are an integral part of this statement.

**SNAKE RIVER WATER DISTRICT**  
**Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes**  
**in Net Position**  
**For the Year Ended December 31, 2018**

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Revenue (budgetary basis)	<u>\$ 3,808,233</u>
Revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>3,808,233</u>
Expenditures (budgetary basis)	1,257,203
Capital outlay	<u>(226,710)</u>
Expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>1,030,493</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ 2,777,740</u></u>

The accompanying notes are an integral part of this statement.