

**GOLDSMITH GULCH SANITATION DISTRICT**  
**Arapahoe County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**



**RECEIVED**

*By the Office of the State Auditor at 8:21 am, Jul 31, 2017*

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## SCHILLING & COMPANY, INC.

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### **Independent Auditor's Report**

Board of Directors  
Goldsmith Gulch Sanitation District  
Arapahoe County, Colorado

We have audited the accompanying financial statements of Goldsmith Gulch Sanitation District (District) as of and for the years ended December 31, 2016 and 2015, 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 audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goldsmith Gulch Sanitation District, as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that governmental 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*SCHILLING & COMPANY, INC.*

Highlands Ranch, Colorado  
July 17, 2017

## **BASIC FINANCIAL STATEMENTS**

**GOLDSMITH GULCH SANITATION DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2016 and 2015**

|                                      | <b>2016</b>  | <b>2015</b>  |
|--------------------------------------|--------------|--------------|
| <b>ASSETS</b>                        |              |              |
| <b>CURRENT ASSETS</b>                |              |              |
| Cash and investments                 | \$ 4,510,156 | \$ 5,014,524 |
| Cash and investments - Restricted    | 9,000        | 8,600        |
| Prepaid expenses                     | 17,148       | 16,812       |
| Accounts receivable                  | 6,879        | 250,276      |
| Receivable - County Treasurer        | 1,567        | 1,118        |
| Property tax receivable              | 314,642      | 278,820      |
| Total current assets                 | 4,859,392    | 5,570,150    |
| <b>CAPITAL ASSETS, NET</b>           | 2,959,739    | 2,624,706    |
| Total assets                         | 7,819,131    | 8,194,856    |
| <b>LIABILITIES</b>                   |              |              |
| <b>CURRENT LIABILITIES</b>           |              |              |
| Accounts payable                     | 81,460       | 49,941       |
| Deposits                             | 9,912        | 9,912        |
| Unearned income                      | -            | 248,035      |
| Total current liabilities            | 91,372       | 307,888      |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |              |              |
| Property tax revenue                 | 314,642      | 278,820      |
| Total deferred inflows of resources  | 314,642      | 278,820      |
| <b>NET POSITION</b>                  |              |              |
| Net investment in capital assets     | 2,959,739    | 2,624,706    |
| Restricted                           | 9,000        | 8,600        |
| Unrestricted                         | 4,444,378    | 4,974,842    |
| <b>TOTAL NET POSITION</b>            | \$ 7,413,117 | \$ 7,608,148 |

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**GOLDSMITH GULCH SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2016 and 2015**

|                                                   | <b>2016</b>      | <b>2015</b>      |
|---------------------------------------------------|------------------|------------------|
| <b>SEWER OPERATIONS</b>                           |                  |                  |
| Sewer service fees                                | \$ 506,377       | \$ 502,816       |
| Castlewood connection fees                        | 20,475           | 20,137           |
| Direct sewer expenses                             | (809,233)        | (733,423)        |
| Depreciation                                      | (79,876)         | (75,690)         |
| Gross income (loss) from sewer operations         | (362,257)        | (286,160)        |
| <br><b>GENERAL AND ADMINISTRATIVE EXPENSES</b>    | <br>161,970      | <br>133,130      |
| <br><b>OPERATING INCOME (LOSS)</b>                | <br>(524,227)    | <br>(419,290)    |
| <br><b>NONOPERATING REVENUES</b>                  |                  |                  |
| Property taxes                                    | 276,529          | 264,250          |
| Specific ownership taxes                          | 21,374           | 20,006           |
| Net investment income                             | 24,537           | 18,527           |
| Miscellaneous income                              | 10,906           | 580              |
| Total nonoperating revenues                       | 333,346          | 303,363          |
| <br><b>NONOPERATING EXPENSES</b>                  |                  |                  |
| County Treasurer's fees                           | 4,150            | 3,974            |
| Total nonoperating expenses                       | 4,150            | 3,974            |
| <br><b>INCOME BEFORE CONTRIBUTIONS</b>            | <br>(195,031)    | <br>(119,901)    |
| <br><b>CAPITAL CONTRIBUTIONS</b>                  |                  |                  |
| Tap fees - Sewer                                  | -                | 11,894           |
| Total capital contributions                       | -                | 11,894           |
| <br><b>CHANGE IN NET POSITION</b>                 | <br>(195,031)    | <br>(108,007)    |
| <br><b>TOTAL NET POSITION - BEGINNING OF YEAR</b> | <br>7,608,148    | <br>7,716,155    |
| <br><b>TOTAL NET POSITION - END OF YEAR</b>       | <br>\$ 7,413,117 | <br>\$ 7,608,148 |

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**GOLDSMITH GULCH SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2016 and 2015**

|                                                                          | <b>2016</b>  | <b>2015</b>  |
|--------------------------------------------------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |              |              |
| Receipts from customers                                                  | \$ 522,214   | \$ 527,121   |
| Payments to suppliers                                                    | (940,020)    | (852,575)    |
| Net cash provided (required) by operating activities                     | (417,806)    | (325,454)    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                   |              |              |
| Property tax collections for operations                                  | 276,080      | 265,046      |
| Specific ownership taxes                                                 | 21,374       | 20,006       |
| County Treasurer's fees                                                  | (4,150)      | (3,974)      |
| Miscellaneous income                                                     | 10,906       | 580          |
| Net cash provided (required) by noncapital financing activities          | 304,210      | 281,658      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>          |              |              |
| Tap fee receipts                                                         | -            | (23,746)     |
| Acquisition of capital assets                                            | (414,909)    | (11,273)     |
| Net cash provided (required) by capital and related financing activities | (414,909)    | (35,019)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                              |              |              |
| Investments (purchased) matured                                          | 405,726      | (3,847)      |
| Interest received                                                        | 24,537       | 18,527       |
| Net cash provided (required) by investing activities                     | 430,263      | 14,680       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>              |              |              |
|                                                                          | (98,242)     | (64,135)     |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>                     |              |              |
|                                                                          | 3,134,196    | 3,198,331    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                           |              |              |
|                                                                          | \$ 3,035,954 | \$ 3,134,196 |

(Continued)

**GOLDSMITH GULCH SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2016 and 2015**  
(Continued)

|                                                                                                          | <b>2016</b>         | <b>2015</b>         |
|----------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Reconciliation of operating income (loss) to net cash provided (required) by operating activities</b> |                     |                     |
| Operating income (loss)                                                                                  | \$ (524,227)        | \$ (419,290)        |
| Adjustments to reconcile operating income (loss) to net cash provided (required) by operating activities |                     |                     |
| Depreciation                                                                                             | 79,876              | 75,690              |
| (Increase) decrease in                                                                                   |                     |                     |
| Accounts receivable                                                                                      | 243,397             | 4,168               |
| Prepaid expense                                                                                          | (336)               | (16,618)            |
| Increase (decrease) in                                                                                   |                     |                     |
| Accounts payable                                                                                         | 31,519              | 30,596              |
| Unearned income                                                                                          | (248,035)           | -                   |
| Net cash provided (required) by operating activities                                                     | <b>\$ (417,806)</b> | <b>\$ (325,454)</b> |

These financial statements should be read only in connection with the accompanying notes to financial statements.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Goldsmith Gulch Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court of Arapahoe County, and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Arapahoe County, Colorado. The District was established to provide sanitation services. The District contracts with the Metro Wastewater Reclamation District for sanitary treatment services.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reports of the District. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District has no employees and all operations and administrative functions are contracted.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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

The more significant accounting policies of the District are described as follows:

**Basis of Accounting**

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and loans is recorded as a reduction in liabilities.

**GOLDSMITH GULCH SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses**

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. For financial statement purposes, the District is reported as a single Enterprise Fund. For budgetary purposes, the District separately budgets for a General Fund and an Enterprise Fund.

The District has amended its annual budget for the year ended December 31, 2016.

**Pooled Cash and Investments**

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility.

Investments are carried at fair value.

**Cash Equivalents**

For purposes of the statement of cash flows, the District considers cash deposits, certificates of deposit and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

**Property Taxes**

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

**Capital Assets**

Capital assets reported by the District include collection systems, and machinery and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

|                         |             |
|-------------------------|-------------|
| Sewer system            | 20-50 years |
| Buildings and equipment | 50 years    |

**Tap Fees and Contributed Lines**

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

**Comparative Data**

Comparative total data for the prior year has been prescribed in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2016 and 2015 are classified in the accompanying financial statements as follows:

|                                   | <u>2016</u>         | <u>2015</u>         |
|-----------------------------------|---------------------|---------------------|
| Statement of net position:        |                     |                     |
| Cash and investments              | \$ 4,510,156        | \$ 5,014,524        |
| Cash and investments - Restricted | 9,000               | 8,600               |
| Total cash and investments        | <u>\$ 4,519,156</u> | <u>\$ 5,023,124</u> |
| Statement of cash flows:          |                     |                     |
| Cash and cash equivalents         | \$ 3,035,954        | \$ 3,134,196        |
| Investments                       | 1,483,202           | 1,888,928           |
| Total cash and investments        | <u>\$ 4,519,156</u> | <u>\$ 5,023,124</u> |

Cash and investments as of December 31, 2016 and 2015 consist of the following:

|                                               | <u>2016</u>         | <u>2015</u>         |
|-----------------------------------------------|---------------------|---------------------|
| Cash and deposits with financial institutions | \$ 2,388,778        | \$ 2,948,756        |
| Investments                                   | 2,130,378           | 2,074,368           |
| Total cash and investments                    | <u>\$ 4,519,156</u> | <u>\$ 5,023,124</u> |

**Deposits with Financial Institutions**

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

At December 31, 2016 and 2015, the District's cash deposits had a bank balance of \$2,500,536 and \$2,964,794, respectively, and a carrying balance of \$2,388,778 and \$2,948,756, respectively.

**GOLDSMITH GULCH SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**Investments**

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest include:

- \* Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- \* Local government investment pools

**Fair Value Measurement and Application**

The District categorizes its fair value measurements 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District had invested in COLOTRUST, an external investment pool, and in Federal Home Loan Banks, a government-sponsored bank. Both of these financial institutions record the Districts investments at fair value and measure fair value using Level 2 inputs.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

As of December 31, 2016 and 2015, the District had the following investments:

| <b>Investment</b>                                           | <b>Maturity</b>                   | <b>Fair Value</b>   |                     |
|-------------------------------------------------------------|-----------------------------------|---------------------|---------------------|
|                                                             |                                   | <b>2016</b>         | <b>2015</b>         |
| Colorado Local Government<br>Liquid Asset Trust (COLOTRUST) | Weighted average<br>under 60 days | \$ 1,680,378        | \$ 1,624,368        |
| Federal Home Loan Banks (FHLB)                              | May 25, 2021                      | <u>450,000</u>      | <u>450,000</u>      |
|                                                             |                                   | <u>\$ 2,130,378</u> | <u>\$ 2,074,368</u> |

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**U.S. Government Agency Securities**

**Federal Home Loan Banks (FHLB)** – FHLB is a GSE that provides stable, low-cost funding to U.S. financial institutions for home mortgage, small business, rural, and economic development lending. FHLB is the largest collective source of home mortgage and community credit in the U.S. There are twelve banks in the FHLB system, and the FHLB provide loans only to other banks. FHLB is rated AAA by Moody's and AA+ by S&P.

**GOLDSMITH GULCH SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 4 - CAPITAL ASSETS**

An analysis of the changes in capital assets for the years ended December 31, 2016 and 2015, follows:

|                                             | <b>2016</b>                                 |                    |                  | <b>Balance at<br/>December 31,<br/>2016</b> |
|---------------------------------------------|---------------------------------------------|--------------------|------------------|---------------------------------------------|
|                                             | <b>Balance at<br/>December 31,<br/>2015</b> | <b>Additions</b>   | <b>Deletions</b> |                                             |
| Capital assets, being depreciated:          |                                             |                    |                  |                                             |
| Sewer system                                | \$ 4,010,518                                | \$ -               | \$ -             | \$ 4,010,518                                |
| Buildings and equipment                     | 441,075                                     | 414,909            | -                | 855,984                                     |
| Total capital assets being depreciated      | <u>4,451,593</u>                            | <u>414,909</u>     | <u>-</u>         | <u>4,866,502</u>                            |
| Less accumulated depreciation for:          |                                             |                    |                  |                                             |
| Sewer system                                | (1,708,075)                                 | (72,348)           | -                | (1,780,423)                                 |
| Building and equipment                      | (118,812)                                   | (7,528)            | -                | (126,340)                                   |
| Total accumulated depreciation              | <u>(1,826,887)</u>                          | <u>(79,876)</u>    | <u>-</u>         | <u>(1,906,763)</u>                          |
| Total capital assets being depreciated, net | <u>2,624,706</u>                            | <u>335,033</u>     | <u>-</u>         | <u>2,959,739</u>                            |
| Capital assets, net                         | <u>\$ 2,624,706</u>                         | <u>\$ 335,033</u>  | <u>\$ -</u>      | <u>\$ 2,959,739</u>                         |
|                                             |                                             |                    |                  |                                             |
|                                             | <b>2015</b>                                 |                    |                  |                                             |
|                                             | <b>Balance at<br/>December 31,<br/>2014</b> | <b>Additions</b>   | <b>Deletions</b> | <b>Balance at<br/>December 31,<br/>2015</b> |
| Capital assets, being depreciated:          |                                             |                    |                  |                                             |
| Sewer system                                | \$ 4,010,518                                | \$ -               | \$ -             | \$ 4,010,518                                |
| Buildings and equipment                     | 429,802                                     | 11,273             | -                | 441,075                                     |
| Total capital assets being depreciated      | <u>4,440,320</u>                            | <u>11,273</u>      | <u>-</u>         | <u>4,451,593</u>                            |
| Less accumulated depreciation for:          |                                             |                    |                  |                                             |
| Sewer system                                | (1,639,876)                                 | (68,199)           | -                | (1,708,075)                                 |
| Building and equipment                      | (111,321)                                   | (7,491)            | -                | (118,812)                                   |
| Total accumulated depreciation              | <u>(1,751,197)</u>                          | <u>(75,690)</u>    | <u>-</u>         | <u>(1,826,887)</u>                          |
| Total capital assets being depreciated, net | <u>2,689,123</u>                            | <u>(64,417)</u>    | <u>-</u>         | <u>2,624,706</u>                            |
| Capital assets, net                         | <u>\$ 2,689,123</u>                         | <u>\$ (64,417)</u> | <u>\$ -</u>      | <u>\$ 2,624,706</u>                         |

Depreciation expense for the years ended December 31, 2016 and 2015 was charged to sewer operations in the amounts of \$79,876 and \$75,690, respectively.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5 - SEWAGE TREATMENT CONTRACT**

The District is a “special connector” by agreement with Metropolitan Denver Reclamation District (Metro), which provides the treatment of sewage collected within the District. The standard service agreement with Metro provides for annual charges to be assessed by formula against the District on an estimated basis. Corrections to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. Metro assesses tap fees against the District for connections to the system. The composition of the charges for 2016 is as follows:

|                                                                 |            |
|-----------------------------------------------------------------|------------|
| Estimate for current year                                       | \$ 485,585 |
| Adjustment of second preceding year estimate<br>to actual final | 6,613      |
| Preliminary adjustment of preceding year estimate               | 26,706     |
| Total annual charges                                            | \$ 518,904 |

The 2017 sewer treatment estimate is \$514,579. The total annual charge is expected to be \$534,517, which includes an unfavorable 2015 final adjustment of \$1,731 and an unfavorable 2016 preliminary adjustment of \$18,207.

**Sanitary Sewage Interconnection Agreement**

On December 19, 2011, the District entered into an agreement with Castlewood Water and Sanitation District (Castlewood) to service a select area within Castlewood. The service area includes 81 single family residences (the Properties). Castlewood will connect its wastewater collection system into the District’s wastewater system in order to serve the Properties. Castlewood will pay all costs associated with the connection of the wastewater systems.

Service at the connection will commence no earlier than January 1, 2012. Fees for the services provided the by the District will consist of: 1) an annual service fee of \$144 per SFE for 81 SFEs (Service Fee) or the amount regularly charged to District residents for the year in question, plus an annual surcharge on each service fee of \$5 per SFE (Surcharge) to compensate the District for the increased electrical costs associated with providing service to the Properties (which may be modified by the District every three years to accommodate for increase or decreased in the cost of electricity), 2) an annual amount equal to the District’s most recently certified property tax mill levy multiplied by the aggregate assessed value of the Properties, and 3) a processing fee of \$100 per invoice.

The District is responsible for routine maintenance of that portion of the District’s wastewater collection system utilized by Castlewood, per the agreement. Any and all costs incurred by the District that are not deemed routine, as defined by the agreement, shall be shared proportionately between the District and Castlewood.

On July 12, 2013, the first amendment to the agreement for sanitary sewage interconnection was approved. The first amendment removes all references to Lift Station No. 1 and obligation of Castlewood to contribute costs there of.

**GOLDSMITH GULCH SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 6 - NET POSITION**

The District has net position consisting of three components - net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, the District had net investment in capital assets of \$2,959,379 and \$2,624,706, respectively.

Restricted assets include net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's restricted net position as of December 31, 2016 and 2015 was \$9,000 and \$8,600, respectively.

The District's unrestricted net position as of December 31, 2016 and 2015 is \$4,444,378 and \$4,974,842, respectively.

**NOTE 7 - 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; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' 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 workers compensation, liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. 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.

**NOTE 8 - 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, revenue and debt limitations which apply to the State of Colorado and all local governments.

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. The District's management believes a significant portion of its operations qualifies for this exclusion.

**GOLDSMITH GULCH SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

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.

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.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation. Internally, the District maintains its records in two funds - the General Fund and the Enterprise Fund.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

**GOLDSMITH GULCH SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended December 31, 2016**

|                                                  | Budgets             |                     | Actual              | Variance-<br>Positive<br>(Negative) |
|--------------------------------------------------|---------------------|---------------------|---------------------|-------------------------------------|
|                                                  | Original            | Final               |                     |                                     |
| <b>SEWER OPERATING INCOME</b>                    |                     |                     |                     |                                     |
| Sewer service fees                               | \$ 528,000          | \$ 528,000          | \$ 506,377          | \$ (21,623)                         |
| Castlewood connection fees                       | 21,000              | 21,000              | 20,475              | (525)                               |
| Total sewer operating income                     | <u>549,000</u>      | <u>549,000</u>      | <u>526,852</u>      | <u>(22,148)</u>                     |
| <b>SEWER OPERATING EXPENDITURES</b>              |                     |                     |                     |                                     |
| Direct sewer expenditures                        | 689,904             | 800,904             | 809,233             | (8,329)                             |
| Total sewer operating expenditures               | <u>689,904</u>      | <u>800,904</u>      | <u>809,233</u>      | <u>(8,329)</u>                      |
| Gross profit (loss) from sewer operations        | (140,904)           | (251,904)           | (282,381)           | (30,477)                            |
| <b>GENERAL AND ADMINISTRATIVE EXPENDITURES</b>   | <u>201,160</u>      | <u>211,160</u>      | <u>161,970</u>      | <u>49,190</u>                       |
| <b>OPERATING INCOME (LOSS)</b>                   | <u>(342,064)</u>    | <u>(463,064)</u>    | <u>(444,351)</u>    | <u>18,713</u>                       |
| <b>NONOPERATING REVENUES</b>                     |                     |                     |                     |                                     |
| Property taxes                                   | 278,820             | 278,820             | 276,529             | (2,291)                             |
| Specific ownership taxes                         | 22,300              | 22,300              | 21,374              | (926)                               |
| Net investment income                            | 17,800              | 17,800              | 24,537              | 6,737                               |
| Miscellaneous                                    | 6,000               | 6,000               | 10,906              | 4,906                               |
| Total nonoperating revenues                      | <u>324,920</u>      | <u>324,920</u>      | <u>333,346</u>      | <u>8,426</u>                        |
| <b>NONOPERATING EXPENDITURES</b>                 |                     |                     |                     |                                     |
| Treasurer's fees                                 | 4,200               | 4,200               | 4,150               | 50                                  |
| Total nonoperating expenditures                  | <u>4,200</u>        | <u>4,200</u>        | <u>4,150</u>        | <u>50</u>                           |
| <b>CAPITAL OUTLAY</b>                            |                     |                     |                     |                                     |
| Capital outlay                                   | <u>400,000</u>      | <u>500,000</u>      | <u>414,909</u>      | <u>85,091</u>                       |
| <b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b> | (421,344)           | (642,344)           | (530,064)           | 112,280                             |
| <b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>       | <u>5,056,553</u>    | <u>5,002,820</u>    | <u>4,983,442</u>    | <u>(19,378)</u>                     |
| <b>FUNDS AVAILABLE - END OF YEAR</b>             | <u>\$ 4,635,209</u> | <u>\$ 4,360,476</u> | <u>\$ 4,453,378</u> | <u>\$ 92,902</u>                    |

**GOLDSMITH GULCH SANITATION DISTRICT  
RECONCILIATION OF BUDGETARY BASIS (ACTUAL)  
TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year Ended December 31, 2016**

**Actual**

Funds available are defined as follows:

|                                    |                            |
|------------------------------------|----------------------------|
| Current assets                     | \$ 4,859,392               |
| Less current liabilities           | (91,372)                   |
| Less deferred inflows of resources | <u>(314,642)</u>           |
| Funds available                    | <u><u>\$ 4,453,378</u></u> |

Reconciliation of budgetary basis (actual) to Statement of Revenues,  
Expenses and Changes in Net Position:

|                                                                                           |                            |
|-------------------------------------------------------------------------------------------|----------------------------|
| Revenues (budgetary basis)                                                                | \$ 860,198                 |
| Total revenues per Statement of Revenues, Expenses and<br>Changes in Net Position         | <u>860,198</u>             |
| Expenditures (budgetary basis)                                                            | 1,390,262                  |
| Depreciation                                                                              | 79,876                     |
| Capital outlay                                                                            | <u>(414,909)</u>           |
| Total expenses per Statement of Revenues, Expenses and<br>Changes in Net Position         | <u>1,055,229</u>           |
| Change in net position per Statement of Revenues, Expenses<br>and Changes in Net Position | <u><u>\$ (195,031)</u></u> |

**GOLDSMITH GULCH SANITATION DISTRICT  
SCHEDULES OF OPERATING EXPENSES  
Years Ended December 31, 2016 and 2015**

|                                            | <u>2016</u>       | <u>2015</u>       |
|--------------------------------------------|-------------------|-------------------|
| <b>DIRECT SEWER EXPENSES</b>               |                   |                   |
| Sewer treatment                            | \$ 518,904        | \$ 487,358        |
| Billing expense                            | 9,800             | 8,892             |
| Maintenance and engineering                | 274,864           | 232,802           |
| Utilities                                  | 5,665             | 4,371             |
| Total direct sewer expenses                | <u>\$ 809,233</u> | <u>\$ 733,423</u> |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b> |                   |                   |
| Accounting                                 | \$ 20,285         | \$ 18,934         |
| Audit                                      | 4,400             | 4,400             |
| Directors' fees                            | 5,400             | 5,200             |
| District management fees                   | 62,277            | 41,065            |
| Election expense                           | 2,287             | -                 |
| Insurance                                  | 16,813            | 16,207            |
| Legal                                      | 40,750            | 33,750            |
| Payroll tax                                | 413               | 398               |
| SDA                                        | 1,752             | 2,103             |
| Miscellaneous                              | 7,593             | 11,073            |
| Total general and administrative expenses  | <u>\$ 161,970</u> | <u>\$ 133,130</u> |

## **OTHER INFORMATION**

**GOLDSMITH GULCH SANITATION DISTRICT  
 FIVE YEAR SUMMARY OF ASSESSED VALUATION,  
 MILL LEVY AND PROPERTY TAXES COLLECTED  
 December 31, 2016**

| <u>Year ended<br/>December 31,</u>                            | <u>Prior Year<br/>Assessed Valuator<br/>for Current Year<br/>Property Tax Levy</u> | <u>Mills<br/>Levied</u> | <u>Total<br/>Property Taxes</u> |                  | <u>Percent<br/>Collected<br/>to Levied</u> |
|---------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------|---------------------------------|------------------|--------------------------------------------|
|                                                               |                                                                                    |                         | <u>Levied</u>                   | <u>Collected</u> |                                            |
| 2012                                                          | \$ 170,741,700                                                                     | 1.602                   | \$ 273,529                      | \$ 269,050       | 98.4%                                      |
| 2013                                                          | \$ 169,126,020                                                                     | 1.574                   | \$ 266,204                      | \$ 261,637       | 98.3%                                      |
| 2014                                                          | \$ 177,607,460                                                                     | 1.527                   | \$ 271,206                      | \$ 266,434       | 98.2%                                      |
| 2015                                                          | \$ 176,655,077                                                                     | 1.501                   | \$ 265,160                      | \$ 264,250       | 99.7%                                      |
| 2016                                                          | \$ 216,812,312                                                                     | 1.286                   | \$ 278,820                      | \$ 276,529       | 99.2%                                      |
| Estimated for<br>calendar year ending<br>December 31,<br>2017 | \$ 208,925,540                                                                     | 1.506                   | \$ 314,642                      | N/A              |                                            |

**Note:**

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.